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AUTORITÉ DES NORMES COMPTABLES

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PDC n° 41

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

Dear Hans,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IASB (Board) Discussion Paper (DP). ANC welcomes the opportunity to comment on the Board's proposals included in this document. Our letter sets out the most important matters that interested stakeholders involved in ANC's due process have identified.

We understand that the Board's objective is to assess whether entities can, at a reasonable cost, provide users with more useful information about the acquisitions they make. We are supportive of this objective. Having said that, we are not fully convinced that the matters the Board discussed in this DP are fully interrelated. In our view, the disclosures that an entity provides about the subsequent performance of acquisitions and how an entity subsequently measures goodwill are two separate matters. We agree that the impairment test might provide some information about the failure of an acquisition but it does not provide any insight into whether an acquisition is meeting the specific objectives set at the acquisition date. Accordingly, we do not view the DP as single 'package' of preliminary views, but rather as two sets of preliminary views. Consistent with our reading, we have assessed those two sets separately.

- **Improving disclosures about acquisitions (Questions 2–5)**

The Board performed a Post Implementation Review of IFRS 3 *Business Combinations* which showed that many users are asking for additional information about the subsequent performance of acquisitions. We understand that such information would help them assess more effectively an entity's performance and management's stewardship of the entity's economic resources. We note that the existing requirements in IFRS Standards, in particular those in IFRS 3, do not specifically aim to provide information about the subsequent performance of acquisitions—they rather provide 'static' information about the assets the entity has acquired and the liabilities it has assumed in a business combination.

We also have a long-standing view that stewardship is the bedrock of financial reporting[1]. Accordingly, we are supportive of the Board's objective to develop disclosures about acquisitions.

Notwithstanding our support for this objective, we have strong reservations about requiring entities to provide more information about acquisitions along the lines described in the DP. We think that entities will simply be unable to provide such information in some circumstances. We have identified the matters that warrant further consideration from the Board if it were to proceed with its proposals:

- the level playing field issue: many French preparers have expressed misgivings about the sensitivity of the information they would have to disclose applying the proposed requirements. The CODM may review information when monitoring the subsequent performance of the acquired business but that does not mean that *all* that information should be made publicly available—this is because some of that information provides insights into an entity's detailed strategy. For example, disclosing quantitative information about synergies raises questions about not only the reliability of any such information but also its confidentiality towards competitors (in particular for revenue synergies) or other stakeholders (in particular for cost synergies). We think that entities' management should be permitted to apply their judgement in relation to the information entities disclose—this would help ensure entities provide information that is relevant without being prejudicial to their financial performance or competitive position. Furthermore, we think that the proposed disclosures should not create a competitive imbalance between entities applying IFRS Standards and those applying other GAAPs. The benefits of providing information to capital markets as a whole outweigh the costs to individual entities only if *all* entities are subject to the same, or similar, requirements. Accordingly, we recommend the Board ensure that any of its proposals would not undermine the existing level playing field at the expense of entities applying IFRS Standards. To do so, we suggest the Board consider setting out disclosure requirements in relation to acquisitions after having carefully considered the requirements in other major accounting frameworks. Lastly, we note that the disclosure of sensitive information is part of the IFRS Foundation strategic activities and thus, encourage the Foundation to use the input received on the DP to have a holistic approach of this matter—for example by considering a framework for sensitive information in the standard-setting process.

- an entity's ability to provide the information: executing in a timely manner the integration of the acquired business in the acquirer's existing operations is usually an essential factor for an acquisition to be successful—this is because integration helps achieve the synergies expected from a business combination. This usually implies that the acquired business is swiftly reorganised and combined with the acquirer's business. In other words, the integration process blurs the lines between the two businesses. Accordingly, the more successful an acquisition is, the more difficult it may be to provide specific information about the acquired business. The accounting monitoring of an acquisition may be quite straightforward when the acquired business accounts for one or several cash-generating units (CGUs) but it is undoubtedly complex, and even not feasible, when the acquired business is a part of several CGUs. In this context, the proposed disclosure requirements create genuine challenges about the existence of information that is retrievable at a reasonable cost over several reporting periods. This, in turn, creates verifiability and auditability issues.

- the cost constraint: the benefits of the proposed disclosure requirements will exceed their related costs if, in particular, the information an entity provides is based on the information that the CODM uses when it reviews the performance of the acquired business—this would ensure that entities (i) provide relevant information to users and (ii) are not required to prepare information that the CODM does not use. We thus agree with the Board's approach in this respect. However, we also think that an entity should be required to provide information only for acquisitions that are material to an entity—even if the CODM were to monitor the performance all acquisitions irrespective of their size. Additionally, we recommend the Board assess the costs and benefits

[1] See in particular our letter on ED 2015/3 Conceptual Framework for Financial Reporting

of the existing requirements in IFRS 3 on pro forma information before developing new requirements in this respect—we think in particular that the requirement to provide pro forma information on cash flows from operating activities may raise significant practical difficulties and thus, may fail to provide relevant information at a reasonable cost.

- the location of information: we acknowledge users' informational needs but think that financial statements are not designed to cater for all those needs. Paragraph 3.2 of the 2018 *Conceptual Framework for Financial Reporting* ('the Framework') states that the objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources. Consistent with that objective, we think the financial statements should include information about the assets the entity has acquired and the liabilities it has assumed at the acquisition date whereas management commentary (or other communications) should, in contrast, include information about the perspectives and expected subsequent performance of the business acquired. We acknowledge that IFRS Standards do not include mandatory requirements about the information an entity provides in the management commentary. However, we think, consistent with paragraph 1.6 of the Framework that general purpose financial reports (including financial statements) *do not* and *cannot* provide *all* of the information that existing and potential investors, lenders and other creditors need. We also note that some of the Board's proposals would result in entities providing in their financial statements 'management guidance' or forward-looking information about how management expects an acquisition to unfold—to the best of our knowledge, other IFRS Standards do not require entities to disclose such information in their financial statements. Accordingly, we think that much of the information users need in relation to acquisitions would be better located outside IFRS financial statements (such as in the management commentary).

Accordingly, we recommend the Board gain an in-depth understanding of the challenges described and work closely with all stakeholders to, in particular, strike a proper balance between the information users need and the information preparers can reasonably provide. We acknowledge the Board published a DP that only sets a framework for possible disclosures and thus, that the Board should undertake further research to develop appropriate requirements. However, there is still much uncertainty about the nature, scope and granularity of the proposed disclosures—in other words we are (i) still unclear about the information the Board expects entities to disclose in practice and (ii) unsure of whether the information that an entity's CODM currently monitors would meet the Board's expectations. Accordingly, should the Board proceed with its proposals, we recommend it undertake extensive field-testing to understand how entities currently monitor their acquisitions and, using that input, assess what information it could reasonably require entities to disclose.

- **Goodwill impairment and amortisation (Questions 6–9)**

We are supportive of retaining the existing approach for the subsequent measurement of goodwill, ie not amortising goodwill and, instead, test, at least annually, the CGUs containing goodwill for impairment. We see no 'game changer' that would lead the Board to reintroduce amortisation of goodwill and think that strong compelling arguments would need to support any such far-reaching accounting change.

There have been long-standing differing views about amortising, or not amortising, goodwill. We think the current debate on goodwill simply perpetuates those opposing views. Both models have limitations. We think the Board has retained the appropriate approach by asking constituents' feedback on whether there are new conceptual or practical arguments that would support changing the requirements on the subsequent accounting for goodwill.

From a conceptual perspective, there is, to the best of our knowledge, no new information beyond that considered by the Board when it last deliberated, in 2004, on that matter. The impairment test, together

with appropriate disclosure, is able to provide useful information—our detailed letter sets out some recent academic studies supporting this view. From a practical perspective, we have not identified, at least in our jurisdiction, any significant facts or circumstances that would lead to reconsider the conceptual arguments.

We do not share the views of those excoriating the existing impairment test. We think it generally works as intended—not working perfectly, but working though, and probably working better than amortisation would do. We do not deny that the 'too little, too little late' issue may arise in practice but disagree with the view this is a pervasive issue that should trigger a change in the accounting for goodwill. We note there are mixed views from academic and practical perspectives on the timeliness of impairment and think there is no evidence at this stage to conclude that the test fails to provide timely information. Neither are we convinced that management over-optimism is significantly undermining the relevance of the impairment test. Here again, there is evidence that the reality is much more nuanced than some might say. The examination of the causes of differences between past cash flow projections and actual cash flows shows that, in many cases, management bias does not predominantly explain those discrepancies. Applying judgement and developing estimates are part and parcel of IFRS Standards and, in the case of the impairment, we think those judgements and estimates provide useful information to users about how an entity's management views its business and how it thinks business will unfold—this should not be conflated with management's bias. We also note that for many entities, the impairment test is subject to close oversight from their governance, auditors and regulators; in our view, this oversight provides some assurance that entities properly apply the requirements in IFRS Standards.

The impairment test model is not perfect but this is no new information—this is because an entity tests the CGUs that contain goodwill, not goodwill directly. The conceptual limitations of that model are nonetheless no reason for dropping any attempt to make improvement. We agree with the Board's preliminary view that designing a significantly more effective impairment test is not feasible at a reasonable cost. Nevertheless, there are ways to improve things, and we believe the Board should undertake more research and perform further outreach to shore up the existing model—this is the right way forward, rather than contemplating any major change. We recommend the Board contemplate improving the requirements in IFRS Standards by:

- reducing the effect of the shielding effect. We think the Board should not undertake any further work on the 'headroom approach' and should instead target improvements to IAS 36 *Impairment of Assets*. We acknowledge that any such improvements are unlikely to remove the shielding effect but they can at least reduce its consequences. In particular, we recommend the Board develop further application guidance to clarify the requirements on the allocation of goodwill specified in paragraphs 80–87 of IAS 36.

- improving the way entities estimate value in use and the information they provide in this respect. We note that IAS 36 already includes much application guidance about how entities perform the impairment test, but not necessarily about the most essential features of that test. In particular, the terminal value usually accounts for a significant part of the value in use entities estimate but, paradoxically, is subject to few measurement or disclosure requirements. The Board could, for example, provide further clarity on how entities estimate terminal values and could develop disclosure requirements in this respect.

- researching whether an entity could reverse impairment losses for goodwill in some limited circumstances and within a specified period of time. We think that the requirement in paragraph 124 of IAS 36 to not reverse an impairment loss for goodwill may adversely affect the timeliness of impairment. We are cognisant of the conceptual limitations related to the reversal of such impairment losses as currently described in the Basis for Conclusions on IAS 36. However, we think this matter warrants a trade-off between retaining a rigorous conceptual approach and ensuring that entities can recognise impairment losses on a timely basis.

In contrast, we are not supportive of the model consisting in amortising *and* testing goodwill. We acknowledge this approach has recently gained increasing support among stakeholders. We

understand it is hailed as being simpler, less prone to judgement and more cost-effective than the actual impairment test. Those supporting amortisation also say it leads to more prudent accounting than testing, at least annually, goodwill for impairment. We are unconvinced by the conceptual or practical arguments put forward in that respect. In our view, the amortisation of goodwill would result in entities (i) recognising amortisation expense with low, if any, relevance value and thus, (ii) developing management performance measures—the practicalities of that model together with its supposed prudence would be achieved at the expense of relevance. We think that amortisation of goodwill is fundamentally inconsistent with the objective of this project because it would fail to provide information about whether an acquisition is successful—the recognition of amortisation expense is unlikely to provide that information. Additionally, management would still apply its judgement to determine the useful life of goodwill—there is a risk that any standard-setting in this respect might end with either 'high-level' principles or with rule-based requirements, two outcomes we would view as unsatisfactory. Last but not least, we think entities may not achieve significant cost-savings because they would (i) still be required to test goodwill and (ii) incur costs to develop business plans that are going to be prepared irrespective of the existence of an impairment test.

ANC has been advocating in favour of stability in standard-setting—there should be significant evidence to justify major changes to IFRS Standards. The implications and cost of the reintroduction of amortisation are so important that the threshold to make that accounting change is very high. We consider that the practical arguments supporting amortisation are unlikely, alone, to exceed that threshold. Should the Board nonetheless decide to investigate amortisation, we think that specifying transitional requirements for any such change will be a crucial and sensitive step—ie specifying whether an entity first applies amortisation prospectively or retrospectively.

As a final note on this topic, we are surprised by, and disagree with, the Board's proposal to remove the requirement to perform an annual quantitative impairment test. This would deprive users and entities themselves from relevant information—this is because an entity would not regularly update disclosures about the impairment test. Furthermore, we are unconvinced that this proposal (i) is consistent with the Board's willingness to address the 'too little, too late' effect and (ii) would significantly reduce the costs for entities.

- **Simplifying the impairment test (Questions 10–11)**

We agree in principle with the Board's proposals to remove restrictions regarding the estimation of future cash flows used to measure value in use. However, we recommend the Board specify that such cash flows:

- exclude those from enhancements or improvements related to future business combinations; and
- include those from future operations that are expected to be implemented with a sufficient probability.

We also concur with the use of post-tax discount rates. We think all those proposals would simplify the impairment test and thus, would reduce its implementation costs without creating significant conceptual problems.

The appendix to this letter sets out specific matters of concern for further consideration and recommendations in relation to the Board's preliminary views.

We also agree with the Board's preliminary view that it should not consider (i) developing more application guidance on the difference between entity-specific and market-participant inputs, (ii) mandating only one method for estimating the recoverable amount, and (iii) permitting entities to test goodwill at the entity level or the level of the reportable segment.

- **Intangible assets (Questions 12)**

We agree with the Board's preliminary view that it should not contemplate permitting some intangible assets to be included in goodwill. We think the existing requirements in IFRS 3 and IAS 38 *Intangible Assets* for intangible assets acquired in a business combination provide useful information. We would, in contrast, encourage the Board to consider whether an entity should recognise some additional intangible assets separately from goodwill; for example, we question why IFRS 3 requires the separate recognition of customer relationships—for which no underlying identified contracts may exist at the acquisition date—whereas it prohibits the recognition of an asset for an entity's assembled workforce. The recognition of additional intangible assets would help better understand what the entity has paid for in a business combination and could help reduce concerns about the overstatement of goodwill in the entity's statement of financial position. Lastly, we think that presenting separately less intangible assets would be at odds with users' growing informational needs about intangible assets—users currently expect entities to provide more information about such assets, not less.

- **How our answers could be affected by the work undertaken by the FASB (Question 13)**

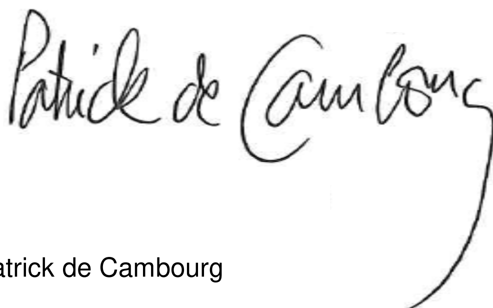
As explained above, we think the existence of a level playing field in relation to the disclosures an entity would be required to provide about the subsequent performance of an acquisition is an essential factor that the Board should consider in deciding whether to proceed with its proposals. We note that the FASB's Invitation to Comment (ITC) published in 2019 included a discussion about developing disclosures similar to those included in the Board's DP. The ITC acknowledged the practical limitations of those disclosures and instead sought respondents' feedback on '*other, operable ideas about new or enhanced disclosures*'. This, together with the feedback received, indicates the FASB might not proceed with disclosures about the subsequent performance of an entity's acquisition.

In contrast, our view in relation to retaining the impairment test for the subsequent measurement of goodwill may be unchanged should the FASB decide to reintroduce the amortisation of goodwill. We have not been made aware of any significant level playing issue in this respect. We think IFRS Standards and US GAAP should remain aligned whenever possible but convergence is not, *alone*, an argument that would support a change to IFRS Standards. We acknowledge that the Board could hardly ignore any change to US GAAP. Should any such change occur, we recommend the Board assess whether the facts and circumstances, together with the rationales, supporting that change would equally apply to IFRS preparers.

The appendix to this letter sets out our detailed answers to the questions included in the DP.

Should you need any further explanation, please do not hesitate to contact me.

Yours sincerely,



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APPENDIX

Question 1

Paragraph 1.7 summarises the objective of the Board's research project. Paragraph IN9 summarises the Board's preliminary views. Paragraphs IN50–IN53 explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views.

The Board has concluded that this package of preliminary views would, if implemented, meet the objective of the project. Companies would be required to provide investors with more useful information about the businesses those companies acquire. The aim is to help investors to assess performance and more effectively hold management to account for its decisions to acquire those businesses. The Board is of the view that the benefits of providing that information would exceed the costs of providing it.

(a) Do you agree with the Board's conclusion? Why or why not? If not, what package of decisions would you propose and how would that package meet the project's objective?

(b) Do any of your answers depend on answers to other questions? For example, does your answer on relief from a mandatory quantitative impairment test for goodwill depend on whether the Board reintroduces amortisation of goodwill? Which of your answers depend on other answers and why?

The 'package of decisions' to be assessed in this DP [Question (a)]

1. ANC agrees with the objective that the IASB's project pursues—ie to explore whether entities can, at a reasonable cost, provide users with more useful information about the acquisitions those entities make.
2. Having said that, ANC is not fully convinced that all the matters the IASB (Board) discussed in this DP are fully interrelated.
3. ANC agrees with the Board's observations in paragraphs IN50(a), (b), (c) and (e) of the DP that identify possible links between the proposals included in this DP.
4. In paragraph IN50(d), though, the Board explains that views on amortisation of goodwill and on the simplification of the impairment test partly depend on views on whether to require additional disclosures about an acquisition and its subsequent performance—this is because the disclosures an entity would provide about the subsequent performance of acquisitions could reduce reliance on the impairment test to provide information about this performance. ANC is not entirely convinced by this explanation. ANC agrees that the impairment test might provide some information about the failure of an acquisition but it does not provide, and is not even designed to provide, any insight into whether an acquisition is meeting the specific objectives set at the acquisition date.
5. Accordingly, from a conceptual perspective, ANC does not view the DP as a single 'package' of preliminary views, but rather as two separate sets of views—one set about the disclosures an entity should provide to help users assess the subsequent performance of an acquisition and another set about the subsequent measurement of goodwill. The only link that, in ANC's view, may exist between those two sets is a cost argument—ie whether the cost savings arising from the simplifications to the impairment test as described in Question 10, together with the introduction of an indicator-based impairment test as described in Question 9, could offset the additional costs an entity would incur should it be required to disclose information about the subsequent performance of acquisitions.
6. Consistent with its reading, ANC has assessed those two sets of proposals separately and has not provided any assessment of the overall 'package'.
7. In addition, expressing a view on whether the benefits of that package would exceed its costs may be premature because the project is still in its early stages and significant concerns about

some Board's proposals would need to be addressed before reaching any conclusion in this respect.

Interdependence of our answers [Question (b)]

8. In general, ANC's answers are not dependent on one another. More specifically, ANC's appreciation of the respective merits of additional disclosures about an acquiree's performance or the subsequent measurement of goodwill are not interrelated—as explained above, ANC considers these two matters as warranting a separate assessment.
9. Specifically, ANC understands the view of those saying that the Board should reintroduce amortisation of goodwill and that such reintroduction could justify removing the requirement for testing goodwill at least annually—this is because amortisation would reduce the reliance on this test. However, ANC supports the existing impairment test because it provides useful information to users and entities alike. Consistent with its view, ANC does not support the proposal to remove the requirement for an annual impairment test. ANC is so convinced by the intrinsic utility of the information derived from the impairment test that it would support retaining a mandatory test even if the Board were to reintroduce amortisation (unless the amount of goodwill to be tested is not material).
10. In addition, ANC agrees with the Board's proposal not to require more intangible assets to be included in goodwill. ANC's view on this matter is not dependent on how an entity should subsequently measure goodwill. Should however the Board decide to develop a proposal requiring more intangible assets to be included in goodwill and require the amortisation of goodwill, ANC's support of the current impairment-only model would be reinforced—this is because such proposals would result in comingling in a single-line item intangibles assets with dissimilar features, thereby making the determination of goodwill's useful life complex and arbitrary.

Question 2

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

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

(b) Do you agree with the disclosure proposals set out in (i)–(vi) below? Why or why not?

   (i) A company should be required to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date (see paragraphs 2.8–2.12). Paragraph 7 of IFRS 8 *Operating Segments* discusses the term 'chief operating decision maker'.

   (ii) A company should be required to disclose information about whether it is meeting those objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives (see paragraphs 2.13–2.40), rather than on metrics prescribed by the Board.

   (iii) If management (CODM) does not monitor an acquisition, the company should be required to disclose that fact and explain why it does not do so. The Board should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20).

   (iv) A company should be required to disclose the information in (ii) for as long as its management (CODM) continues to monitor the acquisition to see whether it is meeting its objectives (see paragraphs 2.41–2.44).

   (v) If management (CODM) stops monitoring whether those objectives are being met before the end of the second full year after the year of acquisition, the company should be required to disclose that fact and the reasons why it has done so (see paragraphs 2.41–2.44).

   (vi) If management (CODM) changes the metrics it uses to monitor whether the objectives of the acquisition are being met, the company should be required to disclose the new metrics and the reasons for the change (see paragraph 2.21).

(c) Do you agree that the information provided should be based on the information and the acquisitions a company's CODM reviews (see paragraphs 2.33–2.40)? Why or why not? Are you concerned that companies may not provide material information about acquisitions to investors if their disclosures are based on what the CODM reviews? Are you concerned that the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions the CODM reviews?

(d) Could concerns about commercial sensitivity (see paragraphs 2.27–2.28) inhibit companies from disclosing information about management's (CODM's) objectives for an acquisition and about the metrics used to monitor whether those objectives are being met? Why or why not? Could commercial sensitivity be a valid reason for companies not to disclose some of that information when investors need it? Why or why not?

(e) Paragraphs 2.29–2.32 explain the Board's view that the information setting out management's (CODM's) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information. Instead, the Board considers the information would reflect management's (CODM's) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company's ability to disclose this information? What are those constraints and what effect could they have?

Summary of ANC's views on the Board's preliminary views

11. The feedback on the Post Implementation of IFRS 3 *Business Combinations* has clearly shown that users are asking for additional information about the subsequent performance of acquisitions. ANC understands that such information would help users more effectively assess (i) an entity's performance and (ii) management's stewardship of the entity's economic resources. ANC furthermore notes that the requirements in existing IFRS Standards, in particular those in IFRS 3, do not aim to provide that information.
12. Accordingly, ANC agrees in principle with the Board's proposals to develop additional disclosure requirements about the subsequent performance of an acquisition—ie disclosures about how the acquirer monitors the acquiree's performance.
13. Having said that, ANC emphasizes that such disclosures should be built on management's metrics provided to the CODM for relevance and cost/benefit trade-off reasons. This implies that any disclosure requirements should not result in an entity providing information that the CODM does not use when monitoring the acquiree's performance. This information shall also be subject to the materiality constraint.
14. Furthermore, ANC has strong reservations about the Board's proposals with regard to:
    a. the commercial sensitivity of the information entities would have to disclose applying the proposed requirements (see paragraphs 57–62);
    b. entities' ability to provide the required information (see paragraphs 38–39); and
    c. the location of that information—ie either in the notes to the financial statements or elsewhere (such as in management commentary) (see paragraphs 43–47).
15. In addition, ANC, together with many French constituents, are (i) still unclear about the information the Board expects entities to disclose in practice and (ii) unsure of whether the information that an entity's CODM currently monitors would meet the Board's expectations.
16. In the light of the challenges described above and the uncertainty about how the Board's proposals would translate in practice, ANC encourages the Board to perform extensive field-testing, reach out to stakeholders and then refine, or significantly reconsider, its proposals to strike a proper balance between the information users need and the information preparers can reasonably provide.

Would the proposed disclosures help satisfy users' need for better information on the subsequent performance of an acquisition? [Question (a)]

- *The proposed disclosures would help meet users' informational needs*

17. The Board's proposals mainly rely on the information that the CODM uses to monitor the performance of the acquisition. An entity would disclose that information as long as the CODM uses it for its monitoring purpose. The CODM and users have usually similar informational needs even though that information could serve different purposes. If the acquirer's CODM considers information to be relevant to monitor the acquiree's performance, that information may also be relevant for users. Accordingly, the proposed disclosures may satisfy users' informational needs.
18. Having said that, the existence of similar informational needs does not mean that *all* the information the CODM reviews should also be made available to users (see paragraphs 57–62 on commercial sensitivity).

- *Relevant rather than comparable information*

19. ANC expects the proposed disclosure requirements to help users understand the subsequent performance of an acquisition, and in particular whether management's objectives for the

acquisition are being met. However, some might think that the management's perspective which would underpin the proposed disclosures, might reduce comparability between entities.

20. ANC thinks that the necessary trade-off between relevance and comparability is acceptable. Some studies have indeed shown that the economic and entity's factors significantly affect disclosures on goodwill (d'Arcy & Tarca, 2018). Therefore, ANC expects the management's perspective underpinning the new disclosures to not further decrease the comparability of some information that is already, to a significant extent, entity-specific.
21. ANC also agrees with the Board's view in paragraph 2.16(c) of the DP that the primary goal of these disclosures is not to provide comparability, but to '[…] *help investors understand how an acquisition is progressing against the objectives a company's management set for it* […]', and that relevance should take precedence over comparability in this case.

- *The retained approach could, in principle, ensure that the benefits of the proposed disclosures exceed their implementation costs*

22. The proposed disclosures would rely on information prepared for the CODM. Accordingly, that information should normally be easily available, provided that an entity is not required to disclose any information if that information is not prepared for the CODM's needs (see paragraph 39). This would also reduce the cost of producing and publishing the disclosure and thus, help ensure a high level of compliance. Therefore, ANC thinks the proposed disclosures would meet the cost/benefit criterion.

ANC's detailed views on the proposed disclosure requirements [Question (b)]

- *Foreword: the materiality constraint*

23. ANC agrees with (i) the objective of providing information about the subsequent performance of acquisitions and (ii) the approach underpinning the proposed disclosures. Having said that, ANC thinks entities should only be required to disclose information that is material.
24. In particular, ANC recommends that information be disclosed only if it relates to a business combination that is material to an entity—or, as a possible variation of this proposal, an entity should disclose information to acquisitions that resulted in the recognition of a material amount of goodwill in the entity's statement of financial position. Business combinations are parts of entities' ordinary course of activity in many industries. Accordingly, providing disclosures on each and every acquisition could (i) impair the benefits of the resulting information and (ii) increase the cost of its publication for an entity and the cost of its analysis for users.
25. Furthermore, when an acquisition is material to an entity, ANC thinks that an entity cannot reasonably be required to disclose all the information that the CODM reviews. This is because some CODMs may ask for very detailed information about the acquisition's performance. Disclosing such detailed information could (i) undermine the understandability of financial statements and (ii) result in making public information that is commercially sensitive (see paragraphs 57–62).

- *Strategic rationale of the acquisition and management's objectives [sub-question (i)]*

26. ANC thinks, consistent with the Board's view in paragraph 2.9 of the DP, that the current requirement in paragraph B64 (d) of IFRS 3 to disclose '*the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree*' is unlikely to be specific enough to form a robust basis for information that fully helps users assess the subsequent performance of an acquisition.
27. Accordingly, ANC agrees with the Board's proposal to require entities to explain the rationale of the acquisition and management's objectives as at the acquisition date.

- *Information about the objectives and whether those objectives are being met [sub-question (ii)]*

28. ANC agrees with the proposal to publish information used by the CODM to ascertain whether the objectives set for the acquisition are being met. Disclosing information that the CODM uses to monitor and measures the objectives of the acquisition should address users' needs without imposing undue costs and efforts on the entity.
29. However, ANC thinks the requested information should be limited to indicators that the CODM monitors pursuant to the objectives set at the acquisition date. In addition, these indicators must be published as long as the CODM effectively uses them in assessing whether the acquisition is meeting its objectives—this is an essential prerequisite to the implementation of the proposed disclosures requirements. The Board should not require entities to prepare and disclose any additional metrics if the CODM stops monitoring the indicators that were defined at the acquisition date.

- *Acquisitions that the CODM does not monitor [sub-question (iii)]*

30. ANC agrees with the Board's proposal that an entity should not be required to disclose metrics for the acquisitions that the CODM does not monitor. As outlined in paragraphs 19–22, disclosures should be limited to information that the CODM uses to monitor acquisitions for both relevance and cost/benefit reasons. Replacing these metrics with information produced for the sole purpose of their presentation in financial statements is not consistent with the rationale for disclosing information that the CODM uses.
31. Furthermore, ANC thinks that disclosing the information that the CODM does not monitor a specific acquisition might be of interest to users. Accordingly, ANC agrees with the Board's proposal that an entity should be required to disclose the fact that the CODM does not monitor an acquisition and explain why it does not do so.

- *Disclosing information as long as the CODM continues the monitoring of whether the acquisition meets its objectives [sub-question (iv)]*

32. Consistent with the views set out above, ANC agrees with the Board's proposal in this respect.

- *Information about the CODM stopping the monitoring of an acquisition [sub-question (v)]*

33. Consistent with the views set out above, ANC thinks it is not relevant for an entity to disclose information about an acquisition after the CODM discontinues the monitoring of that acquisition.
34. However, ANC thinks that the Board should set a cap to the period during which an entity provides this disclosure. External growth is a pillar of many entities' development strategy; this results in entities making acquisitions on a regular basis. In this context, requiring the disclosure of information as long as the CODM monitors any acquisition may lead to some 'disclosure overload'. This could (i) impair financial statements' understandability and hence, their relevance, and (ii) impose a financial burden on preparers because of information no longer being commensurate with its expected benefits to users. This cost/benefit balance could be further called into question after several reporting periods because the information provided applying the proposed disclosure requirements could become redundant with the metrics published applying IFRS 8 *Operating Segments*.
35. Consequently, ANC suggests permitting preparers to stop disclosing information about an acquisition at the earliest of (i) the end of the period during which the objectives initially set for the acquisition are met or (ii) the period during which the CODM stops monitoring whether those objectives are being met. ANC understands that the two dates are likely to be the same in many cases. However, should those dates be different, ANC thinks that the relevance of the

disclosures would sharply decrease once the objectives are met—this would no longer justify the cost of providing that information.

- *Changes in the metrics the CODM uses [sub-question (vi)]*

36. ANC agrees in principle with the Board's proposals to (i) require entities to disclose the reasons for a change in the metrics used and (ii) disclose the new metrics in place. Those proposals are consistent with the requirement to publish the metrics the CODM effectively uses to monitor the performance of the acquisition against its initial objectives.
37. However, ANC outlines the potential difficulties for entities to communicate on a change in their metrics. Users may interpret such a change as an acknowledgement of a subpar performance, a strategic shift or management's uncertainty. Management could obviously give background information about the reasons underlying this change—this could be, for example, because new (and positive) information becomes available after the acquisition date and management needs to adjust its objectives accordingly. However, there is a risk that management might change its practices or waive monitoring new indicators to avoid disclosing a change in the metrics reviewed. ANC thinks this would be unfortunate because accounting information should be construed as helping, not hindering, the decision-making process. To avoid such unintended consequences, ANC recommends the Board be cautious when developing this requirement.

- *The practical difficulties of preparing the proposed disclosures*

38. Executing in a timely manner the integration of the acquired business in the acquirer's existing operations is usually an essential factor for an acquisition to be successful—this is because integration helps achieve the synergies expected from a business combination. This usually implies that the acquired business is swiftly reorganised and combined with the acquirer's business. In other words, the integration process fundamentally blurs the lines between the two businesses. Accordingly, the more successful an acquisition is, the more difficult it may be to provide specific information about the subsequent performance of the acquired business.
39. The specific monitoring of an acquisition may be quite straightforward when the acquired business accounts for one or several cash-generating units (CGUs) but it is undoubtedly complex when the acquired business is, or becomes, part of several CGUs. Monitoring the acquiree's subsequent performance separately may not even be possible at all in some circumstances. In this context, the proposed disclosure requirements do create challenges about the existence of information that is easily available at a reasonable cost over several reporting periods.

- *Verifiability and auditability of the proposed disclosures*

40. ANC thinks that the verifiability of the information supporting the proposed disclosures is a real practical issue. Many of the metrics the CODM uses may be non-financial in nature (such as market shares) and, if having a financial nature, may not be defined by IFRS Standards. In addition, part of the information an entity would disclose would reflect management's expectation and thus, be forward-looking in nature. This, in turn, would create auditability issues.
41. Indicators used by CODMs may reflect the wide range of objectives and integration processes that exist within entities. ANC thinks that requiring an entity to disclose a detailed description of the methods applied to produce each indicator may not be feasible, for usefulness, cost and practicability reasons. For similar reasons, it may not be cost-effective to require entities to reconcile each indicator with the most directly comparable accounting subtotal, should that subtotal be defined by an IFRS Standard or published as a management-defined performance measure.

42. ANC agrees that the limitations described above would not prevent an entity from providing the whole, or at least some of, the proposed disclosures. Nonetheless, ANC thinks this raises the question of the location where an entity should provide such disclosures—ie in the notes to the financial statements or in the management commentary (see paragraphs 43–47).

- *Should an entity disclose the proposed information in the notes to the financial statements or elsewhere (such as its management commentary)?*

43. Applying the proposed disclosures requirements, an entity would disclose a wide range of indicators, both qualitative and quantitative. Therefore, the question of where the entity should disclose the resulting information is essential.
44. ANC understands users' informational needs in relation to the subsequent performance of acquisitions. ANC also understands users' expectations that the information be subject to proper governance oversight and audit scrutiny. This does not mean, though, that the notes to the financial statements should be the 'by default' location for the proposed disclosures. In other words, this is not because users need reliable information that such information should exclusively be located in an entity's financial statements.
45. ANC thinks that the 2018 *Conceptual Framework for Financial Reporting* (Framework) includes part of the answer to the question of where an entity should provide the proposed disclosures. Paragraph 3.2 of the Framework states that the objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources. Consistent with that objective, ANC thinks the financial statements should include information about the assets the entity has acquired and the liabilities it has assumed at the acquisition date whereas management commentary (or other financial communications) should include information about the perspectives and expected subsequent performance of the business acquired.
46. ANC acknowledges that IFRS Standards do not include mandatory requirements about the information an entity provides in the management commentary. However, ANC thinks, consistent with paragraph 1.6 of the Framework that general purpose financial reports (including financial statements) *do not* and *cannot* provide all of the information that existing and potential investors, lenders and other creditors need. ANC also notes that some of the Board's proposals would result in entities providing in their financial statements 'management guidance' or forward-looking information about how management expects an acquisition to unfold—to the best of our knowledge, the Board's proposal would set a precedent because other IFRS Standards do not require entities to disclose such information in their financial statements. Accordingly, ANC thinks that much of the information users need in relation to acquisitions would be better located outside IFRS financial statements (such as in the management commentary).
47. ANC recommends the Board reach out to preparers in various jurisdictions and industries to better understand the existing practices and the difficulties that disclosing the CODM's indicators could entail. Should there be ground to distinguish between indicators—some being within the scope of the management commentary (or other communications), others within the scope of the notes to the financial statements—the Board should develop application guidance to help entities identify where they should provide information.

- *Need for a better understanding of how companies actually monitor acquisitions*

48. ANC observes diversity in the ways of monitoring whether an acquisition meets the objectives set by management. Those ways depend on the acquiree, the acquirer and the strategy pursued at the acquisition date.
49. ANC also notes, consistent with its comments above, that the proposed disclosures create significant implementation challenges.

50. Accordingly, ANC recommends the Board gain an in-depth understanding of the existing practices in relation to how entities monitor the subsequent performance of their acquisitions before proceeding with the proposed disclosures. This could be achieved through an extensive field-testing that would help gather inputs on and examples of the existing practices.

Should the disclosures be based on the information and the acquisitions an entity's CODM reviews? [Question (c)]

- *Information to be disclosed*

51. As explained in paragraphs 19–21, ANC agrees with the Board's proposal that the information provided should be based on the information and the acquisitions an entity's CODM monitors.
52. Requiring an entity to publish metrics on acquisitions that are not monitored or, alternatively, other metrics that the CODM does not review, would be inconsistent with the disclosure objectives and would not meet the cost/benefit criterion.

- *Appropriate level of detail*

53. As explained in paragraphs 23–25, ANC thinks that a materiality criterion should be taken into account when requiring an entity to disclose information about the subsequent performance of an acquisition. Information might be relevant for the day-to-day monitoring of an acquisition but might have little interest, if any, to users.
54. Paragraph B65 of IFRS 3 requires information for individually immaterial business combinations to be disclosed in aggregate. The Board could extend this way of approaching disclosures to the disclosure of metrics that the CODM uses to monitor subsequent performance, whenever possible, when acquisitions on their own are not material.
55. On a similar topic, paragraph 80 of IAS 36 *Impairment of Assets* requires goodwill to be tested on a level that might be aggregated as long as it is consistent with the level used for the monitoring for internal management purposes. Monitoring the performance of an acquisition shares clear links with testing goodwill for impairment, which also reflects, albeit in a different way, this performance. Consequently, ANC expects any new requirements to be implemented on a level that is consistent with the one used for the purpose of testing goodwill.
56. ANC therefore thinks any disclosures should take into account the question of the materiality of the information provided, in relation to the requirements already specified in IFRS 3 and IAS 36. This would alleviate the risk of publishing too much information, and thus the risk of undermining its understandability, relevance and usefulness.

Concerns about the commercial sensitivity of the proposed disclosures [Question (e)]

57. ANC notes the Board's proposals have raised significant concerns among French constituents about the commercial sensitivity of the information that an entity would have to disclose.
58. Part, and even much of, the information the CODM reviews to monitor the performance of an acquisition is commercially sensitive because it provides deep insight into an entity's detailed strategy. Should that information be disclosed, ANC agrees that it may be useful to users. However, competitors do also read an entity's financial statements—in other words, competitors are also users of an entity's financial statements. Disclosing information about the subsequent performance of acquisitions would provide qualitative and quantitative information that is yet unavailable by any other means to competitors. This could, in turn, impair an entity's competitive edge and thus, be detrimental to its overall performance. In this perspective, we think the Board's proposal to require entities to disclose information about synergies along the lines described in Question 4, including revenue synergies, is not reasonable.
59. Additionally, as explained in paragraphs 38–39, business combinations involve the integration of the acquired business. This could result in the acquirer restructuring the acquiree's

operations. Here again, providing information about synergies, including costs synergies, could end up sharing sensitive information with the entity's internal or external stakeholders. For example, it would be difficult for an entity to disclose synergies expected from restructuring whereas no plan has yet been announced to those affected.

60. ANC thinks that the Board cannot reasonably expect entities to 'open their books' on all aspects of their acquisitions. Entities can reasonably provide *some* information about the subsequent performance of their acquisitions but they cannot provide *all* of that information. Accordingly, ANC recommends the Board permit entities to apply their judgement about the information they disclose—this would help ensure entities provide information that is relevant without being prejudicial to their financial performance or competitive position.
61. Furthermore, ANC encourages the Board to step back and assess how its proposals would fit in the global accounting landscape—ie whether its proposals would raise competition issues. Users' informational needs do matter but keeping a level playing field is also crucial. ANC thinks that the proposed disclosures should not create a competitive imbalance between entities applying IFRS Standards and those applying other GAAPs. The benefits of providing information to capital markets as a whole outweigh the costs to individual entities only if *all* entities are subject to the same, or similar, requirements. Accordingly, we recommend the Board ensure that any of its proposals would not undermine the existing level playing field at the expense of entities applying IFRS Standards. To do so, ANC suggests the Board consider setting out disclosure requirements in relation to acquisitions after having carefully considered the requirements in other major accounting frameworks.
62. Lastly, ANC notes that the disclosure of sensitive information was part of the IFRS Foundation strategic activities[2] at a recent date and thus, encourages the Foundation to use the input received on the DP to have a holistic approach of this matter—for example by considering a framework for sensitive information in the standard-setting.

Are there any constraints in our jurisdiction that could affect entities' ability to disclose the information? [Question (f)]

63. ANC has not been made aware of legal or regulatory constraints that could affect the ability of French entities to disclose information regarding management's objectives for the acquisition and the metrics used to monitor progress in meeting these objectives.

[2] See discussions in this respect at the March 2019 IFRS Advisory Council.

Question 3

Paragraphs 2.53–2.60 explain the Board's preliminary view that it should develop, in addition to proposed new disclosure requirements, proposals to add disclosure objectives to provide information to help investors to understand:

- the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business; and
- the extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition.

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

ANC's views on the Board's preliminary views

64. ANC agrees in principle with the Board's proposal to supplement the existing requirements in paragraphs 59 and 61 of IFRS 3 with additional disclosure objectives. In ANC's view, the existing requirements set generic disclosure objectives that, as a matter of fact, help users identify the assets the entity has acquired and the liabilities it has assumed in a business combination but are not designed to provide information about the subsequent performance of acquisitions. Developing specific disclosure objectives would help entities provide useful information.
65. Having said that, ANC questions the consistency of the approach retained by the Board in this respect. In ANC's view, it would have been more relevant to first seek respondents' feedback on proposed disclosures objectives and then consider developing requirements along the lines of those described in question 2 of this DP. This should have resulted in the Board asking Question 3 before Question 2.

Other observations

- *Level at which the performance of an acquisition is monitored*

66. Many business combinations end up with a swift and deep integration of the acquiree within the acquirer's legal, organisational and operational structures. This results in entities monitoring the acquiree's subsequent performance through the performance of one or several operating segment(s). This may make particularly difficult, if not impossible, to monitor the acquiree's specific performance against the objectives set at the acquisition date.
67. Any disclosures objectives should therefore clearly set out that an acquisition's performance could be monitored at a higher level than the acquiree itself. This, in turn, should lead to disclose information about the level at which the acquisition is monitored.

- *The need to consider the practical challenges identified in Question 2 when developing disclosure objectives*

68. As a consequence of the practical challenges and concerns outlined in Questions 2 and having in mind the wide range of practices across entities and jurisdictions, ANC recommends the Board make a thorough analysis of the metrics currently used by entities before developing new disclosure objectives.

69. Furthermore, ANC thinks those disclosures objectives should acknowledge that an entity would provide information in the notes to the financial statements or in the management commentary (or in other communications). In this respect, ANC suggests investigating the possibility of distinguishing and developing separate disclosure requirements for:
    a. the benefits expected from the acquisition—that information should be located in the notes to an entity's financial statements.
    b. the metrics the management intends to review to monitor such benefits and the extent to which the acquisition is meeting management's objectives—that information should be located in the management commentary or other financial communications.

Question 4

<table><tr><td>Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 explain the Board's preliminary view that it should develop proposals:
to require a company to disclose:
a description of the synergies expected from combining the operations of the acquired business with the company's business;
when the synergies are expected to be realised;
the estimated amount or range of amounts of the synergies; and
the expected cost or range of costs to achieve those synergies; and
to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.
Do you agree with the Board's preliminary view? Why or why not?</td></tr></table>

Summary of ANC's views on the Board's preliminary views

70. ANC agrees with the Board's objective to require entities to disclose information on the components of goodwill. However, ANC:
    a. disagrees with the Board's focus on synergies, for conceptual and practical reasons; and
    b. thinks the proposed disclosures would result in entities providing sensitive information.
71. ANC agrees with the Board's proposal to specify that liabilities arising from financing activities and defined pension liabilities are both major classes of liabilities.

Disclosing synergies expected from the business combination

- *Commercial sensitivity of the information*

72. Here again, ANC outlines that the proposed disclosure requirements would often result in an entity providing information that is commercially sensitive—detailed information would be given to, and significantly affect the entity's relations with, its competitors, clients and employees. From this perspective, ANC thinks that requiring the disclosure of (i) the estimated amount or range of amounts of the synergies and (ii) the expected cost or range of costs to achieve those synergies would not be reasonably possible for many entities.

- *Relevance of the information provided*

73. Providing quantitative disclosures about synergies included in the balance of goodwill raises a conceptual issue. The amount of synergies is estimated considering the acquiree as a whole at the acquisition date—thus including the synergies attributable to the acquiree's non-controlling interests. However, the amount of goodwill recognised in the statement of financial position might not systematically include amounts attributable to non-controlling interests—this occurs when the entity recognises a 'partial goodwill' applying the requirements in paragraph 19(b) of IFRS 3. Therefore, the estimated amount or range of amounts of the synergies that an entity would disclose could be misleading, and more specifically, could lead users to overestimate the relative importance of the synergies to be achieved with respect to the objectives set for the acquisition as a whole.
74. Accordingly, ANC is not fully convinced of the relevance of the proposed disclosure requirements.

- *Information's availability*

75. The disclosure of information about synergies is subject to some limitations, including the availability of that information itself. Entities do not systematically undertake business combinations to benefit from synergies—synergies happen to be a mere by-product of the acquisition. Accordingly, an entity should be required to disclose information about synergies only if that information is available. Whether the CODM monitors the amount and/or timing of the synergies to be achieved indicates whether that information is available. If so, the entity could provide the information at the acquisition date and for any subsequent reporting period (provided that the CODM monitors that piece of information).
76. In addition, concerns have been raised about the Board's proposals resulting in entities tracking synergies for disclosure purposes. Cost synergies relate by definition to costs that an entity has not incurred. Accordingly, such costs are not reflected in an entity's accounting system. Having this in mind, entities could be required to incur significant implementation costs to track costs synergies.

- *Quantitative and qualitative disclosures*

77. If available, qualitative information about synergies could be straightforward to publish—ANC would not expect this requirement to be difficult to fulfil (if not commercially sensitive).
78. In contrast, providing quantitative information about synergies would be challenging. Depending on the granularity of disclosures to be achieved, that information may, or may not, exist. Should that information exist, it may not be available at a reasonable cost. This could be the case regarding information about the expected costs to achieve these synergies.
79. Moreover, quantitative information is often subject to significant estimation uncertainty, thereby raising the question of whether an entity should disclose information that is insufficiently reliable. In ANC's view, the existence of significant estimation uncertainty may warrant not publishing that information.

- *Goodwill analysis*

80. Restricting the scope of disclosures to synergies only may not meet users' needs regarding goodwill analysis. ANC observes that it seems impractical, and even contrary to the definition of goodwill itself—goodwill is indeed defined as a residual amount—to require an analysis of the total amount and disaggregation of that amount into individual components. Consequently, the Board should not require entities to disclose an exhaustive quantitative analysis of the components of goodwill.
81. Additionally, ANC thinks that considering synergies as the single most important component of goodwill might be misleading. Business combinations may indeed be undertaken for reasons other than primarily benefiting from synergies. For example, in some industries, benefiting from an assembled workforce happens to be the primary reason for acquiring an entity. Therefore, the requirement to provide disclosures about synergies may not provide useful information for any business combination. Accordingly, the Board should not prevent entities from disclosing information about other objectives.

Disclosing liabilities arising from financing activities and defined benefit pension liabilities

82. ANC agrees with the requirement to specify that liabilities from financing activities and defined benefit pension liabilities are major classes of liabilities and, as such, that they should be disclosed—if material—separately applying the existing requirements in paragraph B64(i) of IFRS 3.

Question 5

IFRS 3 *Business Combinations* requires companies to provide, in the year of acquisition, pro forma information that shows the revenue and profit or loss of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period.

Paragraphs 2.82–2.87 explain the Board's preliminary view that it should retain the requirement for companies to prepare this pro forma information.

a) Do you agree with the Board's preliminary view? Why or why not?
b) Should the Board develop guidance for companies on how to prepare the pro forma information? Why or why not? If not, should the Board require companies to disclose how they prepared the pro forma information? Why or why not?

IFRS 3 also requires companies to disclose the revenue and profit or loss of the acquired business after the acquisition date, for each acquisition that occurred during the reporting period.

Paragraphs 2.78–2.81 explain the Board's preliminary view that it should develop proposals:

- to replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. Operating profit or loss would be defined as in the Exposure Draft General Presentation and Disclosures.
- to add a requirement that companies should disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.

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

Summary of ANC's views on the Board's preliminary views

83. ANC agrees that pro forma information provides relevant information about the contribution of the acquired business to an entity's performance and financial position. Accordingly, ANC agrees with the Board's proposal to retain the existing requirements in IFRS 3 in this respect.
84. Having said that, given the costs entities currently incur to prepare that information, ANC recommends the Board ensures that the benefits of the requirements in IFRS 3 on pro forma information exceed their costs before developing new requirements in this respect. ANC also suggests an entity be permitted to leverage existing information required by regulation to comply with the existing requirements in IFRS 3.
85. Developing application guidance on how to prepare pro forma information may be helpful. Specifying the objectives of that information would also be helpful.
86. ANC has reservations about the proposed requirement to disclose pro forma information for '*operating profit before acquisition-related transaction and integration costs*' and disagrees with the proposed disclosure of pro forma '*cash flows from operating activities of the acquired business*'.

ANC's views on retaining the existing requirements on pro forma information [Question (a)]

- *Usefulness of pro forma information*

87. ANC agrees that an acquisition may temporarily impair the predictive value of financial statements—pro forma information is expected to reinstate that predictive value. ANC agrees with the Board's observations in paragraph 2.73 of the DP.
88. Having said that, producing pro forma information is often costly—this is because preparing this information may be practically complex.
89. Pro forma information is difficult to prepare because the underlying data may not be easily available. This may be the case when the preparation of proforma information requires to (i) eliminate operations between the acquirer and acquiree prior to the acquisition or (ii) restate complex contracts such as leases or contracts with customers.
90. Accordingly, the Board should assess and document the usefulness of that information before making any decision that would result in extending the scope of pro forma information or strengthening the requirements in that respect. Consequently, ANC recommends the Board perform a cost/benefit analysis of the information already required by IFRS 3 before developing new requirements.
91. Lastly, ANC disagrees with the Board's proposal to require entities to disclose cash flows from operating activities on a pro forma basis for the reasons set out in paragraphs 105–107.

- *The interplay between the disclosures in IFRS 3 and those required by regulations for some business combinations*

92. Market regulators already require the disclosures of extended pro forma information for some business combinations. This is for example the case with the Commission Regulation 809/2004 in the European Union. This regulation requires the preparation of pro forma financial information in case of significant gross change, ie a variation of more than 25 % relative to one or more indicators of the size of the issuer's business. It also states that '…*in order to present pro forma financial information, a balance sheet and profit and loss account, and accompanying explanatory notes, depending on the circumstances may be included*…'.
93. In those circumstances, the requirements in IFRS 3 result in adding an overlay of requirements to those in the regulation. This could create burdensome duplications because the acquirer has to prepare (i) pro forma information as specified in Regulation 809/2004 and (ii) pro forma information as specified in IFRS Standards. The basis of preparation of two types of pro forma information may differ. To prevent undue cost arising from the duplication of information, ANC proposes the Board explore the possibility of permitting entities to disclose, in their financial statements, information that it prepares when applying other regulatory requirements. An entity would refer in its financial statements to any such information disclosed elsewhere only if it is consistent with the disclosure objectives in paragraph 59 of IFRS 3 or with any new disclosures objectives (see below for further developments on this topic).

Should the Board develop guidance for entities on how to prepare pro forma information? [Question (b)]

- *Application guidance and disclosures*

94. ANC thinks that application guidance may be useful to improve the comparability of pro forma information across entities, especially for topics that are technically challenging—such as upstream or downstream transactions, leases or contracts with clients, etc.

95. Alternatively, entities could be required to disclose the methods they apply to prepare pro forma metrics, as considered in paragraph 2.87 of the Discussion Paper (DP). Some disclosures about the principles at play may be required altogether, even if some application guidance were to be provided, given the idiosyncratic nature of context and methods used among entities. ANC agrees such an approach might impair comparability across entities. However, ANC considers this is no major concern because comparability (enhancing qualitative characteristics) is less important than the predictive value of information (relevance being a fundamental qualitative characteristics).

- *Objectives of pro forma information*

96. Setting out clearly the objectives pursued by pro forma information is necessary to (i) ensure that such information has a predictive value and, (ii) permits the inclusion, in the financial statements, of information disclosed elsewhere for regulatory purpose. The importance of the predictive value of that information, together with the extent of the requirements needed to fulfil this overarching objective, should be stated explicitly so as to guide preparers when preparing pro forma information.
97. ANC expects compliance with such explicit objectives to contribute to a better understanding of the reach and the limits of this information, given that sparse data may be available when it is prepared—the preparation of that information is often made under great time pressure, in particular when the business combination occurs shortly before the end of reporting period. These objectives may also help ensure a more consistent approach to pro forma information by entities across acquisitions thus improving the predictive value of that information for users.

ANC's views on the Board's proposals to develop additional pro forma information [Question (c)]

- *Operating profit before acquisition-related transaction and integration costs*

98. Defining more precisely the profit or loss metrics that an entity should publish may help increase comparability and consistency. Therefore, ANC agrees in principle with the Board's proposals. However, ANC has some reservations about the metrics to be disclosed.
99. As outlined in paragraph 2.79 of the DP, existing IFRS Standards do not define 'operating profit'. The Exposure Draft *General Presentation and Disclosure*' proposes a definition for that subtotal. This newly-defined subtotal would therefore provide an adequate basis for providing disclosures for business combinations—assuming though that the new Standard on disclosures would be applicable before the application date of any amendments to IFRS 3 made in the context of this project.
100. However, the lack of reliable information may temporarily hinder the disclosure of any operating profit metric. The allocation of the acquisition purchase price (PPA) is often a lengthy process. An entity may be unable to complete that process by the first reporting date following the acquisition[3]. For example, an entity would be unable to reliably determine the depreciation expense as long as the fair value of some non-current assets is unavailable. Accordingly, the disclosure of an operating profit metric may not systematically provide reliable information.
101. The presentation of 'operating profit before acquisition-related and integration costs' also creates a problem regarding the scope of the costs to be considered as 'integration costs'. ANC observes that acquisition-related costs are well-defined in paragraph 53 of IFRS 3. However, that is currently not the case for 'integration costs'. ANC thinks that integration costs might be more difficult to identify than acquisition-related costs—this is because of the wide-range of costs that could be construed as integration-related.

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[3] Paragraph 45 of IFRS 3 requires an entity to complete the allocation of the purchase price at latest one year from the acquisition date. This period is referred by IFRS 3 as the 'measurement period'.

102. For example, some might say that costs incurred because of the reevaluation of assets constitute integration costs, which could appear at odds with the tentative proposal of limiting integration costs to costs that '*directly relate to an acquisition that has already occurred, and once incurred those costs cannot recur for that acquisition*' (paragraph 2.80 of the DP). In ANC's view, should the Board maintain this proposal, a clear dividing line should be defined to help entities distinguish between costs that are 'integration costs' and those that are not.
103. Lastly, pro forma information of operating profit before integration and acquisition-related costs is only required for the year of acquisition. A significant business combination is likely to (i) have long-lasting consequences on an entity's profitability and (ii) require much time to complete the acquiree's full integration. Therefore, the acquirer might incur significant integration costs after the year of acquisition. In that situation, the pro forma information relating to the year of acquisition would lack predictive value, considering that 'operating profit before integration and acquisition-related costs' is not a performance measure that is used on a regular basis. In ANC's view, the benefits derived from that indicator are unlikely to outweigh its related costs. Accordingly, ANC recommends the Board to carefully assess the costs and the benefits of that proposal.
104. Disclosing another subtotal, either used in the statement of profit and loss or in the operating segments disclosures, may be a viable, more useful and less costly alternative. Acquisition-related costs and integration costs—provided that the scope of the latter costs is properly defined—could be disclosed in the notes to the financial statements in order to help users understand the extent to which the performance measure has been affected by these costs.

- *Cash-flows from operating activities*

105. ANC disagrees with the proposal to require entities to disclose this information on a pro forma basis. There is little doubt that the disclosure of that metric could provide useful information for the period following the acquisition date. However, requiring the disclosure of the same metric on a pro forma basis for the period prior to the acquisition date could be a difficult endeavour. Collecting the information might be difficult, in particular using the indirect method to measure operating cash flows.
106. As a conclusion, ANC is unsure about whether the benefits of providing this information on a pro forma basis would outweigh its related costs. ANC would thus recommend the Board not proceed with this proposal.
107. With regard to the presentation of the cash flows from operating activities of the acquiree after the acquisition date, ANC recommends the Board gather more information about the cost of disclosing it, in particular where the acquiree is rapidly and fully integrated in the acquirer's operations.

Question 6

As discussed in paragraphs 3.2–3.52, the Board investigated whether it is feasible to make the impairment test for cash-generating units containing goodwill significantly more effective at recognising impairment losses on goodwill on a timely basis than the impairment test set out in IAS 36 *Impairment of Assets*. The Board's preliminary view is that this is not feasible.

a) Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost? Why or why not?
b) If you do not agree, how should the Board change the impairment test? How would those changes make the test significantly more effective? What cost would be required to implement those changes?
c) Paragraph 3.20 discusses two reasons for the concerns that impairment losses on goodwill are not recognised on a timely basis: estimates that are too optimistic; and shielding. In your view, are these the main reasons for those concerns? Are there other main reasons for those concerns?
d) Should the Board consider any other aspects of IAS 36 in this project as a result of concerns raised in the Post-implementation Review (PIR) of IFRS 3?

Summary of ANC's views on the Board's preliminary views

109. ANC thinks that designing a *significantly* more effective impairment test at a reasonable cost is not currently feasible. That does not mean, however, that no improvement to the current test is possible.
110. ANC does not share the views of those criticizing the existing model for the subsequent measurement of goodwill. ANC thinks the current impairment test generally works as intended––not working *perfectly* because the test, itself, has conceptual limitations the Board was aware of in 2004 when it deliberated on that matter, but working though.
111. On the basis of existing evidence in France and existing studies, ANC is not convinced that the 'too little, too late' effect is a pervasive and major issue that should trigger changes to the existing requirements in IFRS Standards. Neither is ANC convinced that management over-optimism is significantly undermining the relevance of the impairment test—in ANC's view, there is evidence that the reality is much more nuanced than some might contend. ANC thinks that the oversight from governance, auditors and regulators ensures that many entities, at least in France, properly implement the impairment test. Lastly, ANC agrees that the shielding effect may defer the recognition of an impairment loss, but here again, thinks this is no new information.
112. ANC recommends the Board make target improvements to the existing requirements in IFRS Standards to strengthen the existing impairment test, instead of considering major standard-setting (either by investigating further the 'headroom approach' or switching to the amortisation of goodwill).

Is it possible to design a more effective impairment test at a reasonable cost [Questions (a) & (b)]?

113. ANC notes that the impairment test model is conceptually not perfect but this is no new information—this is because an entity tests the CGUs that contain goodwill, not goodwill directly. Paragraph 3.19 of the DP reminds that the purpose of the impairment test is to test the recoverability of the combined carrying amount of the assets with the CGUs, rather than test

the recoverability of the acquired goodwill directly—this is because acquired goodwill does not generate cash flows independently from other assets or groups of assets.

114. The conceptual concerns about the shielding effect are also no new information. In paragraph BC135 of the Basis of Conclusions on IAS 36 explains that '*the objective of the goodwill impairment test could at best be to ensure that the carrying amount of goodwill is recoverable from future cash flows expected to be generated by both acquired goodwill and goodwill generated internally after the business combination*'.
115. ANC agrees that it is difficult to overcome the conceptual limitations of the existing impairment test.
116. ANC furthermore observes that the Board investigated whether the impairment test could be improved by incorporating an estimate of the headroom that (i) exists before the recognition of goodwill and (ii) may shield acquired goodwill against impairment. The Board did so by developing the 'headroom approach'. The Board decided to not proceed with that approach given its conceptual limitations—the model would reduce shielding but would not eliminate it—and its expected implementation costs. ANC agrees with the Board's decision and thinks that the 'headroom approach' showed that designing a more efficient impairment test at a reasonable cost is difficult. In ANC's view, any proposed approach may always have limitations because of the very specific nature of goodwill—this is an asset that does not generate cash flows independently and cannot be measured directly.
117. However, that does not mean that improvements to the existing test are not feasible. Accordingly, ANC thinks that designing a *significantly* more effective impairment test at a reasonable cost is not currently feasible. ANC outlined in paragraphs 133–148 some possible ways of improving the existing test.

Shielding effect and management over optimism [Question (c)]

- *ANC's view on the Board's diagnosis*

118. In the DP, the Board echoes the views of some stakeholders (i) explaining that the impairment test fails to provide timely information and thus, (ii) expressing concerns about the 'too little too late' effect. Management over-optimism and the shielding effect would explain the ineffectiveness of the impairment test.
119. As explained in paragraphs 114 above, ANC agrees that the shielding effect is a significant limitation to the existing impairment test. Accordingly, ANC agrees with the Board's view that the shielding effect may delay, or event prevent, the recognition of goodwill impairment loss.
120. However, ANC disagrees with the view that the 'too little too late' is a widespread issue. This issue may exist but not the extent that it should warrant dropping the existing impairment test. ANC is also unconvinced that management over optimism is one of the root causes for that issue.

- *Does the existing impairment test really fail to provide timely information?*

121. ANC thinks that the Board should not overstate the case of a lack of the impairment test's timeliness—in ANC's view, there is no ground to believe in a wide-spread timeliness issue. Accordingly, ANC does not really share the concerns described in paragraph 3.2 of the DP.
122. In ANC's view, the statement on a lack of timeliness needs to be further demonstrated. This demonstration would help fairly assess whether the Board needs to reconsider the existing requirements for the subsequent measurement of goodwill. ANC hopes the DP will give the opportunity to those excoriating the existing impairment test for its lack of timeliness to provide empirical evidence of this failure. To the best of its knowledge, ANC has not been made aware of the 'too little, too late' effect as being a significant issue in France.

123. The DP mentions some academic research supporting the view that the existing test fails to provide timely information. However, ANC notes that some other studies support an alternative view. We provide a summary of those studies below:
    a. based on a sample of firms listed on the Swedish stock market between 2005 and 2010, Hulzen *et al.* (2011) provided evidence that IFRS 3 revised increased '*timeliness regarding the impairment expense in comparison with the amortisation expense. This indicates that there is a decrease in the gap between the actual decline in economic value of the goodwill and its recognition in the financial statements. Accounting quality has therefore increased regarding the timeliness characteristics*'.
    b. Karampinis & Hevas (2014) found that the asymmetric treatment between (i) asset's impairment in general and (ii) goodwill's annual test enhances the timeliness of goodwill's impairments—these findings also affect ANC's answer to Question 9 of the DP, regarding the removal of the annual impairment test.
    c. Knauer & Wöhrmann (2016) found that unexpected goodwill impairment losses are followed by a drop in market values, indicating such losses provide useful information to users.
    d. Li *et al.* (2011) also provided evidence that both investors and financial analysts revise their expectations downward on the announcement of an impairment loss. They show that the impairment of goodwill serves as a leading indicator of a decline in future profitability. This market's reaction is evidence of the value-relevance of goodwill's impairment, and consequently, of its timeliness. Should the impairment be a lagging indicator, it would probably not be relevant, and would certainly not be a leading indicator.

- *Does management over-optimism undermine the relevance of the existing impairment test*

124. Here again, ANC does not share some stakeholders' concerns about management over-optimism. This bias may exist but, in ANC's view, this is not a pervasive issue. Thinking that it is likely to explain any delay in the recognition of impairment losses is a simplistic statement that would need, here again, to be further demonstrated.
125. ANC notes that paragraph 34 of IAS 36 requires an entity to '*assess the reasonableness of assumptions on which the current cash flows projections are based by examining the causes of differences between past cash flows projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flows projections are based are consistent with past actual outcomes […]*'. This requirement, if properly applied, creates a disincentive to management over-optimism.
126. Furthermore, the examination of the causes of differences between past cash flow projections and actual cash flows shows, in many cases, that management bias does not predominantly explain those discrepancies. Facts and circumstances change and an entity's management cannot foretell all changes in the business environment.
127. Some might say that changes in the facts and circumstances are not reflected in a timely basis in the cash flow projections, in particular when those changes result in a decrease in value in use. ANC acknowledges such delays might exit but thinks that making 'on the fly' adjustments to those projections would not be an appropriate course of action. Reflecting immediately adverse events and conditions without further thought could be interpreted as 'management under-optimism'—another undesirable bias. In addition, when observing negative business variances, management would first consider undertaking remedial actions to 'turn the tide' and then assess whether those actions are successful. This 'second step' assessment would eventually lead an entity to adjust, if need be, the cash flow projections.
128. In addition, applying judgement and developing estimates are part of IFRS Standards and, in the case of the impairment, ANC thinks those judgements and estimates provide useful information to users about how an entity's management views its business and how it thinks

business will unfold—this should not be conflated with management's bias, ie a lack of neutrality by management.

129. ANC also notes that for many entities, the impairment test is subject to close oversight from their governance, auditors and regulators. The audit of goodwill is also a frequent key audit matter in auditors' reports. In ANC's view, this oversight provides some assurance that entities apply properly the requirements in IFRS Standards.

130. ANC also observes that there is no clear evidence of management over-optimism in the academic literature either:

    a. AbuGhazaleh et al. (2011) explain that managers may exercise discretion in the reporting of goodwill's impairment loss. However, those authors explain that the recognition of goodwill's impairment losses are strongly associated with effective governance mechanisms. They suggest that managers are more likely to exercise discretion to convey their private information about the entity's performance rather than to act opportunistically. Discretion could thus be beneficial to users according to this study.

    b. Jordan & Clark (2015) researched the propensity of new CEOs to 'take big baths' relative to the recognition of goodwill's impairment. They found no evidence of this earnings management technique—new CEOs primarily decide to recognise impairment losses for goodwill because their entities' performance deteriorates, not because they wish to blame their predecessors for decisions taken earlier.

    c. D'Arcy & Tarca (2018) made an extensive literature review that corroborated the findings mentioned above for countries with strong accounting enforcement, especially in the context of IFRS Standards. According to the authors, the evidence about managerial incentives for IFRS entities is not as strong as in the US setting. They advise being cautious when using the same conclusions in both contexts because evidence derived from the US setting is not necessarily transferable into the IFRS environment.

    d. Glaum *et al.* (2018) showed that goodwill impairment tends to be timely for entities in high enforcement countries while entities in low enforcement countries tend to be less responsive to declines in the economic value of goodwill. Therefore, the main concern should not be to curb management's over-optimism by designing new accounting requirements—it should rather be to ensure the proper enforcement of existing IFRS Standards.

131. ANC also notes that in a jurisdiction such as France, management's performance is often assessed on management's ability to meet the main objectives or assumptions upon which business plans are predicated. The assessment of management's performance determines the level of their variable compensation. ANC thinks that the way entities monitor their management performance significantly balances the risk of management over-optimism.

132. As a final note, ANC observes that the statement about management over-optimism is also regularly used as a supporting argument for the use of fair value less disposal costs as the sole measurement basis for a CGU's recoverable value—this is because, some say, the determination of fair value would be more 'neutral' than the determination of value in use. Consistent with our view on management over-optimism, we would disagree with any standard-setting that would result in removing value in use as a measurement basis for a CGU's recoverable value (see paragraphs 140–142)

Is there any other aspect in IAS 36 that would warrant further consideration? [Question (d)]

133. Acknowledging the conceptual limitations of the impairment test is no reason to give up the idea of making targeted improvements to the test. We think the Board should undertake more research and perform further outreach to shore up the existing model.

134. We recommend the Board contemplate improving the requirements in IFRS Standards by:
    a. reducing the shielding effect by developing additional guidance on the allocation of goodwill (see paragraphs 135–139);
    b. improving the way entities estimate value in use and the information they provide in this respect (see paragraphs 140–142); and
    c. researching whether an entity could reverse impairment losses for goodwill in some limited circumstances and within a specified period of time (see paragraphs 143–148).

- *Reducing the shielding effect by providing a more robust framework for the allocation of goodwill to CGUs*

135. ANC thinks the Board should have given additional thoughts to the matter of how entities allocate goodwill acquired in a business combination to its CGUs.
136. In ANC's view, this is an essential matter because it relates to the 'unit of account' of goodwill––specifically how an entity subsequently measures goodwill. Allocating goodwill at an inappropriate level could create compensation effects and thus, defer the recognition of impairment losses. Guthrie & Pang (2013) gathered evidence for Australian entities between 2005 and 2010, showing a tendency for entities to define the same, or smaller numbers of, CGUs than reporting segments. According to the authors, this suggests the existence of CGU aggregation, '*which may have the capacity to influence the incidence of goodwill impairment, and thereby the financial position of an entity*'.
137. ANC notes that paragraph 80 of IAS 36[4] requires an entity to allocate goodwill to a unit or group of units that shall represent the lowest level within an entity at which the goodwill is monitored for internal management purposes and is not larger than an operating segment. However, no detailed application guidance supplements this principle that is yet the cornerstone of the impairment test. Accordingly, ANC recommends the Board develop application guidance on the requirements in paragraphs 80–87 of IAS 36.
138. Furthermore, ANC notes that the existing requirements exclusively rely on the level at which goodwill is monitored. In ANC's view, the Board should explore requiring entities to make more granular allocations of goodwill. For example, the Board could require an entity to:
    a. identify the level at which synergies are expected to be realised and then require the entity to test goodwill at the lowest of (ii) that level and (ii) the level currently described in paragraph 80(a) of IAS 36; or
    b. test goodwill from an acquisition at a level that is consistent with the objectives initially set to assess whether that acquisition is performing as expected—for instance if the CODM monitors the performance of an acquisition by assessing the increase in the market shares of a business located in a CGU or a group of CGUs, goodwill should be allocated to that CGU or group of CGUs.
139. ANC is aware that striking a proper balance between the efficiency of the impairment test and its feasibility at a reasonable cost is a complex matter. ANC does not understate the difficulties in developing requirements in that respect. However, ANC thinks the Board should undertake more research on that matter to respond to users' concerns about the timeliness of the impairment test.

[4] This paragraph states: '*For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall: (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8* Operating Segments *before aggregation*'.

- *Improving the way entities estimate value in use and the information they provide in this respect*

140. ANC notes that IAS 36 already includes much application guidance about how entities perform the impairment test, but not necessarily about the most essential features of that test—in particular the flows referred to in paragraph 33(c) of IAS 36[5]—'terminal value' throughout this letter.
141. In particular, the terminal value usually accounts for a significant part of the value in use entities estimate[6] but, paradoxically, is subject to few *measurement* or *disclosure* requirements. IAS 36 does not in particular provide clarity about the basis an entity uses to extrapolate the cash flow projections beyond the period covered by the most recent budgets/forecasts, ie the 'normative cash flow' it uses. That cash flow is usually an essential element in determining terminal value and thus, value in use. IAS 36 does not either require any sensitive analysis on terminal value.
142. Accordingly, the Board could investigate providing further clarity on how entities estimate terminal values and could develop disclosure requirements in addition to those in paragraph 134 of IAS 36. Such disclosures would help users understand the methodology and main inputs an entity has retained to determine terminal value.

- *Researching whether reversing impairment loss for goodwill should be permitted*

143. ANC thinks that the existing requirement in paragraph 124 of IAS 36 to not reverse an impairment loss for goodwill may adversely affect the timeliness of impairment.
144. ANC is cognisant of the conceptual limitations related to the reversal of such impairment losses as currently described in paragraphs BC187–191 in the Basis for Conclusions on IAS 36. ANC acknowledges that distinguishing whether the reversal of an impairment loss for goodwill relates to an increase in the recoverable amount of recognised goodwill or an increase in internally generated goodwill would be seldom feasible. However ANC finds the Board's observation in paragraph BC191 quite paradoxical—this paragraph explains that *'the Board was not as concerned about goodwill being shielded from the recognition of impairment losses by internally generated goodwill as it was about the direct recognition of internally generated goodwill that might occur if reversals of impairment losses for goodwill were permitted'*. If the shielding effect is deemed as being not a major problem when goodwill is initially recognised, it is difficult to understand (without any further explanations) why it is a problem when it comes to reversing impairment losses on goodwill.
145. ANC also notes that a previous version of IAS 36 used to permit the recognition of reversals of impairment losses for goodwill in specific circumstances[7]. In ANC's view, this shows that the question of whether such impairment losses could be reversed is worth being examined.
146. ANC thinks that permitting the reversal of an impairment loss for goodwill could be justified in some limited circumstances, when strong evidence exists that such reversal would not lead to the recognition of internally generated goodwill.
147. In particular, ANC thinks the Board should consider developing requirements so that an impairment loss reversal could be presumed as being linked to a change in estimates in measuring the value in use of a CGU including goodwill rather than to the recognition of internally generated goodwill. This could be the case when the reversal occurs rapidly after the initial recognition of the impairment loss (for example, before the end of the following accounting

[5] Paragraph 33(c) of IAS 36 states that to measure value in use, an entity shall '…*estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified*…'
[6] This particularly true in the current persistent low interest rate economic context.
[7] Paragraph 110 of IAS 36 published in 1998 stated: '*As an exception to the requirement in paragraph 99, an impairment loss recognised for goodwill should not be reversed in a subsequent period unless: (a) the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and (b) subsequent external events have occurred that reverse the effect of that event'*.

period) and is linked to the correction of over-pessimistic cash flows projections due to circumstances independent of the entity's management.

148. ANC agrees that permitting the reversal of an impairment loss on goodwill in specific circumstances might not be a perfect solution. However, ANC thinks this matter warrants a trade-off between retaining a rigorous conceptual approach and ensuring that entities recognise impairment losses on a timely basis.

Question 7

Paragraphs 3.86–3.94 summarise the reasons for the Board's preliminary view that it should not reintroduce amortisation of goodwill and instead should retain the impairment-only model for the subsequent accounting for goodwill.

a) Do you agree that the Board should not reintroduce amortisation of goodwill? Why or why not? (If the Board were to reintroduce amortisation, companies would still need to test whether goodwill is impaired.)
b) Has your view on amortisation of goodwill changed since 2004? What new evidence or arguments have emerged since 2004 to make you change your view, or to confirm the view you already had?
c) Would reintroducing amortisation resolve the main reasons for the concerns that companies do not recognise impairment losses on goodwill on a timely basis (see Question 6(c))? Why or why not?
d) Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not?
e) If amortisation were to be reintroduced, do you think companies would adjust or create new management performance measures to add back the amortisation expense? (Management performance measures are defined in the Exposure Draft General Presentation and Disclosures.) Why or why not? Under the impairment-only model, are companies adding back impairment losses in their management performance measures? Why or why not?
f) If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?

Key aspects of ANC's answer to this question

149. ANC agrees with the Board's preliminary view that it should not reintroduce amortisation of goodwill to replace the current impairment-only method. In ANC's view, this is because:
   - the conceptual merits and drawbacks of both the amortisation and an impairment models have been subject to long-standing debates, with still no clear evidence that an amortisation-model has better technical merits than the impairment one. ANC does not expect stakeholders to provide any new information beyond that considered by the Board in 2004 when reaching its conclusion that goodwill should not be amortised.
   - there is no new compelling evidence that would justify changing the accounting for the subsequent measurement of goodwill. As explained in the answer to Question 6, ANC is not convinced, based on existing evidence, that the impairment test lacks timeliness or is subject to major flaws. The limitations of the impairment test are not of such an extent that they would warrant a change in the way of accounting for goodwill.
   - the implications of the reintroduction of amortisation could be so important that the threshold to make that change is very high. In other words, the benefits of reintroducing amortisation of goodwill are unlikely to outweigh its related costs.

150. ANC acknowledges that the amortisation of goodwill (coupled with an indicator-based impairment test) has recently gained increasing support among stakeholders. ANC understands it is hailed as being simpler, less prone to judgement and supposedly more cost-effective than the actual impairment test.

151. ANC is unconvinced by the conceptual or practical arguments put forward in that respect. In ANC's view, the amortisation of goodwill would result in:
    - entities recognising amortisation expense with low, if any, relevance value and thus, developing management performance measures—the practicalities of that model would be achieved at the expense of relevance. In addition, this piece of expense would give no information at all about whether an acquisition is successful—accordingly, ANC thinks that amortisation of goodwill is fundamentally inconsistent with the objective of the project discussed in this DP.
    - management still applying its judgement to determine the useful life of goodwill—there is a risk that any standard-setting in this respect might end with either 'high-level' principles or with rule-based requirements, two outcomes ANC would view as unsatisfactory.
    - entities benefiting from limited, if any, cost-savings because they would (i) still be required to test goodwill and (ii) incur costs to develop business plans that are going to be prepared irrespective of the existence of the impairment test.

Should the Board reintroduce the amortisation of goodwill? [Question (a)]

- *ANC's view on the Board's preliminary view*

152. ANC agrees with the Board's preliminary view that it should not reintroduce amortisation of goodwill. This is because, in ANC's view, there is still no clear conceptual evidence of the superiority of the amortisation over the impairment model. Furthermore, there is much academic evidence confirming the relevance of goodwill impairment and the information derived therefrom. ANC's answer to Question 6 already touched on that matter.

- *Academic evidence supporting the relevance of information derived from the impairment test*

153. There is much academic literature evidencing the relevance of goodwill impairment and its predictive value.
154. Studying the consequences of IFRS adoption, Chalmers et al. (2011) showed that an impairment regime better reflects the underlying economic value of goodwill than its systematic amortisation.
155. Bostwick et al. (2016) outlined the predictive value of the impairment test and concluded that *'analysts, investors, creditors, and others interested in future cash-flows should separately consider goodwill impairment information, when available, to improve the accuracy of cash-flow prediction and forecasting*'.
156. Similarly, Kimbro & Xu (2016) found evidence that the recognition of goodwill as an asset with indefinite useful life, together with an annual impairment test result, in value-relevant information about an entity's growth assumptions and future earnings.
157. According to various academic studies, the limitations of the impairment model are best explained by its implementation in a specific context rather by the shortcomings of the model itself. For example, a thorough literature review by Carvalho et al. (2016) showed that the informational value of goodwill impairment is in direct relation to the quality of disclosures entities provide. In this regard, implementation and enforcement of the model may be essential factors explaining the relevance of the information provided.
158. The importance of disclosures quality is further evidenced by Schatt et al. (2016). Because of the strong information asymmetry between managers and investors for large and complex groups, these authors outlined the need for extensive disclosures to be provided by managers, especially regarding their assumptions of future cash-flows.

Is there any compelling evidence to support a change in the existing IFRS Standards? [Question (b)]

159. ANC has been advocating in favor of stability in standard-setting—amendments to standards should be made if they aim to tackle shortcomings or are based on well-established and widely-accepted conceptual rationales. The subsequent measurement of goodwill may meet none of those criteria. ANC also believes that subsequent measurement of goodwill meets none of the criteria in paragraph 5.4 of the *Due Process Handbook* for new Standards or major amendments either.
160. As explained above, ANC is unaware of any new conceptual argument or change in the environment that would constitute a valid reason to switch to an '*amortisation plus impairment*' model. Some argue that the 2008 financial crisis revealed shortcomings in the impairment-only model, especially regarding the inability of impairment to foresee this crisis. Impairment might have appeared as a lagging-indicator at that time. However, amortisation would not have enabled a timelier recognition of the sudden drop in the accounting value of goodwill—it would only have reduced the amounts of impairment losses required by the economic situation, without providing more relevant information to users.
161. Some proponents of the '*amortisation plus impairment*' model may consider the reduction of the impairment loss as a strong argument because it might reduce the procyclicality of accounting standards. Financial stability is indeed an important factor that standard-setters should consider. However, financial stability should not be achieved by significantly reducing the relevance of accounting standards. Fostering optimal capital allocation through relevant and reliable information is a more consistent way to achieve this financial stability than introducing accounting conservatism in key aspects of the standards. Moreover, financial stability is also achieved through an adequate amount of equity, which would have remained the same in 2008 under both an amortisation and impairment-only models, the date at which an entity would have recognised the loss in value being the only difference between the two models.

The consequences of reintroducing amortisation [Question (c)]

162. As explained in paragraphs 153–158, there is evidence that impairment is relevant and does occur in a timely manner. While some may argue that amortisation may present the same merits, there is no clear conceptual evidence of its superiority in this respect.
163. Furthermore, ANC thinks that the existing impairment test provides valuable insight into an entity's performance and provides a signal for investors. ANC is not convinced that the impairment test, alone, provides information about whether an acquisition is delivering results consistent with the objectives set at the acquisition date—this is mainly because, applying the requirements in IAS 36, an entity tests goodwill at a level that reflects the way it manages its operations and thus, seldom tests the goodwill recognised further to a business combination in isolation from other pieces of goodwill—but it communicates changes in management's expectations and helps assess whether an acquisition is not successful. In other words, impairment test has some (but limited) informational value about whether an acquisition is not successful and is rather consistent with the Board's objective described in paragraph IN3 of the DP. In contrast, amortisation of goodwill would result in an entity recognising systematically in profit or loss a piece of expense that may reflect the cost of an acquisition but has no informational value at all about business trends or changes in management's expectations. Amortisation does not provide any information at all about the performance of an acquisition. Having this conceptual limitation in mind, ANC thinks that amortisation of goodwill is fundamentally at odds with the objective that the Board pursued in this project.
164. Additionally, ANC thinks that amortisation of goodwill is not the most effective way of holding management accountable for an acquisition. This is evidenced by Gu & Lev (2011) who explored the underlying reasons for the recognition of impairment losses. In their paper, the

authors showed that the root cause of many goodwill impairment losses is the buyer's overpriced shares at the acquisition date. Amortisation of goodwill would enable management to spread in profit or loss that overpricing over a long period, and unless a sudden decrease in the perspectives of the acquired business leading to an impairment test occurs, management would never be accountable for the excess payment. Impairment testing then remains the only proper accounting method capable of highlighting an ineffective investment strategy.

165. ANC understands that many of those supporting the amortisation of goodwill say the existing mandatory test is burdensome—it is, they say, costly and requires much time and effort. Accordingly, those supporting amortisation of goodwill outline the simplicity of that approach. ANC thinks that the 'practicality/cost-saving' argument is not convincing. This is because:
    a. any reintroduction of amortisation would be coupled with an impairment test (occurring whenever there is indication that the balance of goodwill may be higher than its recoverable value or on a yearly basis);
    b. an amortisation model with triggering indicator-based impairment testing would require implementation and on-going costs to develop, monitor and update the indicators;
    c. preparing cash flows projections and thus, establishing business plans account for most of the costs entities incur when performing an impairment test. ANC notes entities would incur those costs irrespective of whether they perform a test—in other words, those are not incremental costs. This is because preparing budgets or forecasts is part of an entity's sound governance. We think that the Board's proposals described in Question 9 would help align those budgets and forecasts with the cash flow projections an entity uses to apply the requirements in IAS 36 and thus, would reduce the genuine incremental costs of the impairment test.
166. Last but not least, from a standard-setting perspective, ANC thinks the reintroduction of amortisation would raise the question of the transitional requirements that should apply as a result of this change—ie should amortisation be applied prospectively or retrospectively or should it be subject to a modified retrospective approach?
167. A prospective application would be of little relevance because the economic advantages derived from business combinations that would have occurred before the initial application date of any amendments would not be matched by amortisation expenses of the corresponding pieces of goodwill.
168. A retrospective application might be more relevant but would raise major economic concerns given the significant amount of goodwill recognised on entities' statement of financial position after having applied an impairment-only model for fifteen years—ANC expects such an application would materially reduce entities' equity and, in some instances, would result in entities having negative equity. Such a change could affect entities' access to debt and capital markets and would thus have economic effects. ANC thinks that developing transition requirements would be a crucial step in the standard-setting process.

Acquired goodwill and internally-generated goodwill [Question (d)]

169. ANC thinks it is not possible to distinguish between internally-generated goodwill and recognised goodwill within a single CGU.
170. Reorganisations among CGUs, acquisitions of new businesses, as well as changes in an entity's ownership interest or transactions among businesses using transfer prices contribute to blurring the dividing lines between internally-generated goodwill and acquired goodwill.

The reintroduction of amortisation of goodwill and the use of management performance measures [Question (e)]

171. The impairment test provides decision-useful information to users. It has a confirmatory value by providing information about an entity's performance. It also has predictive value because it provides forward-looking information, reflects changes in management's expectations and

results in entities providing disclosures that help users forecast cash flow. In other words, it is an essential part of an entity's communication with capital markets.

172. In contrast, amortisation has little, if any, predictive value. The recognition of a piece of amortisation expense has confirmatory value about the cost of an acquisition but, in ANC's view, does not convey any other information. This may explain why, in practice, many users used to add back amortisation expenses when goodwill was amortised. ANC understands many users would do the same if the Board were to reintroduce amortisation. This is likely to prompt a demand for adjusted accounting metrics.
173. To ANC's knowledge, management performance measures usually do not take into account the effect of impairment loss for goodwill—this is because it is considered as a non-cash expense. Amortisation expenses are also non-cash expenses. Therefore, ANC expects that amortisation expenses to be added back and that management performance measures to be disclosed before amortisation expenses and impairment losses for goodwill.

Determining the useful life of goodwill if the Board were to reintroduce the amortisation of goodwill [Question (f)]

174. Should the Board reintroduce amortisation of goodwill, ANC thinks that the Board should not specify a 'default period' as this may not provide useful information. Such a 'rule based approach' is unlikely to capture the wide range of business practices and characteristics existing among industries. Some combinations are decided with an extended time horizon (such as for utilities entities), whereas the time span can be significantly shorter in other cases (such as in technology-driven industry). Therefore, a one-size-fit-all approach cannot prove satisfactory.
175. ANC thinks entities would have to determine goodwill's useful life on a case-by-case basis to provide useful information. Entities would have to rely on the facts and circumstances pertaining to each acquisition. This would, in turn, create difficulties, among which the auditability of the useful life, comparability between entities and the disclosures required to explain the judgment entities would have applied.
176. Whatever the approach retained for determining goodwill's useful life, there is still much uncertainty about whether amortisation would provide economically meaningful information. More specifically, if goodwill were to be made of expected synergies, it would be difficult to ascertain whether its useful life would follow the schedule of the economic benefits expected from the business combination.
177. An alternative approach to determine goodwill's useful life could be to reflect a management's commitment on the time frame within which the management expects the combination to deliver its economic benefits. The useful life would then be set against this frame. The outcome could help hold the management accountable for their use of the economic resources of the entity. It may also help investors better understand how an acquisition is performing relative to management expectations. Indeed, should the disclosures be deemed insufficient, even under the new regime, the profit would allow *per se* for a judgment to be formed as to this performance.

Question 8

Paragraphs 3.107–3.114 explain the Board's preliminary view that it should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. The Board would be likely to require companies to present this amount as a free-standing item, not as a subtotal within the structure of the balance sheet (see the Appendix to this Discussion Paper).

a) Should the Board develop such a proposal? Why or why not?

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

178. ANC disagrees with the Board's proposal to require entities to present the amount of total equity excluding goodwill on the statement of financial position. ANC would disagree with the Board's proposal even if that amount were to be presented as a free-standing item.
179. The DP explains that, albeit specific in some respects, goodwill is an asset and, as such, is to be presented on the statement of financial position. ANC agrees that goodwill might be considered to be 'different' from other assets but presenting total equity after deduction of goodwill would be equivalent to asserting that goodwill is no asset, or at best, a 'phantom asset'. This would imply that goodwill should not be recognised in an entity's statement of financial position and thus, would conflict with the Board's conclusion in IFRS 3 that goodwill is an asset.
180. Furthermore, ANC thinks that disclosing such information would be of little interest to users. The Exposure Draft *General Presentation & Disclosures* proposed to present goodwill as a single-item line in an entity's statement of financial position. Therefore, users will be able to easily perform the underlying computation (or an approximation thereof) on the basis of information that is directly available on the statement of financial position.
181. Lastly, ANC questions the accuracy of such a calculation: IFRS 3 revised in January 2008 introduced the possibility for an entity to allocate goodwill to non-controlling interests, either on the initial recognition of goodwill or through changes in ownership interest in a subsidiary. Presenting the amount of total equity excluding goodwill, without disclosing whether part of the goodwill relates to non-controlling interests, would thus be of little use.

Question 9

Paragraphs 4.32–4.34 summarise the Board's preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. A quantitative impairment test would not be required unless there is an indication of impairment. The same proposal would also be developed for intangible assets with indefinite useful lives and intangible assets not yet available for use.

a) Should the Board develop such proposals? Why or why not?
b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21)? If so, please provide examples of the nature and extent of any cost reduction. If the proposals would not reduce costs significantly, please explain why not.
c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23)? Why or why not?

ANC's views on the Board's preliminary views

182. ANC disagrees with the Board's preliminary view to remove the requirement to perform an annual quantitative impairment test. The disclosures an entity presents whenever it performs an impairment test provide relevant information to users and entities themselves.
183. Additionally, ANC is unconvinced that removing this requirement:
    - is consistent with the Board's willingness to address the concerns of those saying that impairment losses for goodwill are sometimes recognised too late; and
    - would *significantly* reduce costs—this is because additional disclosures would still be required.
184. However, ANC thinks that removing this requirement would not make the impairment test significantly less robust should the Board decide to do so.

Should the Board remove the requirement to perform an annual impairment test? [Question (a)]

- *This would deprive users from useful information*

185. ANC considers that the disclosures accompanying the impairment test are so essential that they justify, in and of themselves, to perform an annual impairment test.
186. An entity provides appropriate disclosures about the inputs used for the impairment test in the notes to the financial statements. Should the requirement to perform an annual impairment test be lifted, an entity would not provide this information annually—ie it would provide information only when it is required, on an indicator basis, to perform an impairment test. This could significantly weaken the current level of quantitative and qualitative disclosures an entity provides and thus, may not be congruent with users' expectations.

- *This would require specific disclosures*

187. The Board's preliminary view is that it should not require an entity to perform an annual impairment test for CGUs containing goodwill if there is no indication that the CGUs may be impaired. Assessing whether there is no such indication raises questions in itself, in particular as to the indicators to be relied upon and the level of confidence to expect from the test.
188. Accordingly, in ANC's view, the Board should develop remedial disclosures to address both aspects, so as to provide users with adequate information about the reasons for which an

impairment test has been considered unnecessary. ANC expects those disclosures to be more complete and more specific than those currently required by paragraph 130(a) of IAS 36 (‘*the events and circumstances that led to the recognition or reversal of the impairment loss*’).

189. Given (i) the amount of additional disclosures that could be required in the absence of an annual impairment test and (ii) the loss of useful disclosures that are currently derived from the annual impairment test, ANC is unsure of whether removal the annual impairment test would be so beneficial for users.

- *The Board could extend the use of the conditional relief from the annual test requirement in paragraph 99 of IAS 36*

190. Having outlined the likely unintended consequences of removing the requirement to perform an annual impairment test, ANC recommends the Board explore a more cautious approach such as extending the application of the relief provisions currently specified in paragraph 99 of IAS 36. This paragraph permits the use of the most recent detailed calculation made in a preceding period of the recoverable amount of a CGU in the impairment test if three criteria are met. Extending the applicability of that provision may provide some relief to entities without notably reducing information provided to users.

- *Performing an impairment test at the acquisition date*

191. Should the requirement to perform an annual impairment test be removed, ANC thinks that an entity should be required to perform an impairment test at the acquisition date. It would provide users and the entity alike with a reference frame of the inputs and assumptions supporting the value in use of the acquired business. Any decline in those parameters or assumptions in future periods might be considered as an indicator that the acquired business has lost value. The list of indicators of impairment that the entity would consider and the parameters thresholds that would trigger an impairment test should also be disclosed, at least when the amount of goodwill for any given business combination is material.

Would such a change significantly reduce the costs? [Question (b)]

192. ANC is unconvinced that the proposed relief would significantly reduce the costs entities incur because of:
    - the additional disclosures that would be required annually when an impairment test is not performed: facts and circumstances, indicators used, their values and triggering thresholds, etc (see above).
    - the costs of performing an impairment test on an as-needed basis may be higher compared to an annual impairment test, considering the need for collecting data that would not be collected on a regular basis and performing the calculations in a non-standardised way.

193. However, this increase in the costs of disclosures could be offset, to some extent, by the costs of the qualitative test itself, which could prove to be lower than those of the current quantitative test.

194. On balance, ANC considers that removing the existing requirement to perform an annual test may reduce the costs but not to such an extent that it would be significant, or even noticeable.

Would such a change make the impairment test less robust? [Question (c)]

195. In ANC’s view, there is no evidence that the impairment test would be less robust if it were to not be performed annually.

196. Paragraph 4.22 of the DP considers three reasons for which the relief might make the impairment test less robust. We think none of those reasons are relevant:

- identifying whether indications of impairment are present may require greater management judgement: ANC believes this risk could be mitigated through (i) application guidance on the indications of impairment and (ii) a link with the inputs and assumptions that existed at acquisition date (see paragraphs 185–191 above).
- greater scope for management judgement may make it easier for entities to behave opportunistically to avoid recognising an impairment loss for goodwill: ANC agrees and considers it could be dealt with through enhanced disclosures relating to the indicators for impairment. In addition, ANC considers that the annual impairment test also leaves room to management judgement and does not prevent from opportunistic behaviours.
- if entities do not perform an impairment test regularly, their expertise in performing the test is likely to decline: ANC disagrees with that statement. Entities' staff in charge of the impairment tests are already subject to a turnover. ANC does not see why the loss in expertise from lack of practice should differ in any meaningful way from the one stemming from usual staff turnover—the latter not being a prevailing issue, ANC does not see why the former should become an issue.

Question 10

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

- to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use—cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance (see paragraphs 4.35–4.42); and
- to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use (see paragraphs 4.46–4.52).

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

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

b) Should the Board propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows that are the subject of this question? Why or why not? If so, please describe how this should be done and state whether this should apply to all cash flows included in estimates of value in use, and why.

ANC's views on the Board's preliminary views

197. ANC agrees in principle with the Board's proposals to remove restrictions regarding (i) the estimation of future cash flows and (ii) the determination of the discount rate to measure value in use.
198. However, ANC recommends the Board carefully define the scope of cash flows that an entity would consider when estimating value in use, regarding either the inclusion of cash flows arising from future restructuring or from improving or enhancing an asset's performance—it may not be appropriate to include (i) cash flows arising from future acquisitions or (ii) uncertain cash flows to test existing goodwill for impairment. ANC also outlines the concerns about the interplay between the information an entity would use to determine the cash flows from restructuring with the information it would have to provide to its employees before the restructuring decision is being made public.
199. ANC agrees with the use of post-tax cash-flows or discount rates, considering in particular this would align with most of existing management's practices. The Board's proposals nonetheless raise conceptual or practical issues to investigate further.

Lifting the restrictions on cash flows in relation to the calculation of value in use

200. ANC agrees in principle with the Board's proposals. Including cash flows from enhancing an asset's performance or from a future restructuring is conceptually justified and would help align management's practices with accounting requirements. Accordingly, ANC thinks this proposal would result in relevant information. However, ANC has identified two matters warranting further consideration.

- *Cash flows from enhancing or improving an asset's performance*

201. Capital expenditures incurred to enhance or improve an asset's performance have a direct effect on a CGU's future cash flows. Including the future cash flows related to those enhancements or improvements is relevant because that would be congruent with the very nature of goodwill—goodwill represents a potential for growth and development deemed to be achievable given the economic circumstances at the acquisition date. The information an entity provides through an

impairment test could thus be more relevant than the information derived from the existing requirements that prohibit the inclusion of such cash flows.

202. However, ANC recommends the Board consider the two following points when making a decision about the inclusion of the future cash flows from assets' enhancements or improvements:

- the cash flows arising from enhancements or improvements related to future business combinations should be excluded from the cash flows used to estimate the value in use, even if (i) the assets related to those acquisitions will ultimately be included in existing CGUs and (ii) those flows are reflected in the entity's business plans. An entity may indeed recognise goodwill or specific assets when these future combinations occur. Including them when estimating the value in use of existing CGUs would thus be inconsistent.
- without limiting the scope of the enhancement or improvement cash flows to the capital expenditures already planned at the acquisition date, it may be useful to set requirements to include only cash flows from future operations that are expected to be implemented with a sufficient probability. In addition, if the Board were to remove the requirement to perform an annual impairment test, ANC proposes that abandoning a project previously taken into account in estimating of the value in use should be defined as a triggering indicator for a quantitative impairment test.

▪ *Cash flows from restructuring*

203. With regard to the cash flows from uncommitted restructuring, ANC agrees that the Board's proposals would lead to relevant information. However, ANC draws the Board's attention to the existence of some jurisdictional legal provisions that require employees (or organisations representing employees) to be informed of, or even consulted on, any projected restructuring before the general public. This is the case in France pursuant to the French labour code. Consequently, requiring disclosures about future restructurings not yet announced to employees may create practical and legal difficulties and might lead entities to provide boilerplate information to comply with legal requirements.

204. ANC suggests an entity include in the estimation of value in use only the cash flows from restructuring that meets, or is expected to meet by the date of authorisation for issue of an entity's financial statements, all legal requirements for being announced to employees. Because impairment tests are often performed before the end of the reporting period, this could prove difficult to ascertain with an appropriate level of confidence.

▪ *The Board's proposals should not result in aligning recoverable value on fair value less costs of disposal*

205. If the Board were to proceed with the proposals described in this question, value in use and fair value less disposal costs would be better aligned and would converge. Having said that, this does not mean that fair value less costs of disposal should be the sole basis for determining the recoverable amount.

206. Value in use is the present value of the future cash flows to be derived from continuing use and disposal of the asset. The cash flow projections used in calculating value in use are based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. In contrast, IFRS 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The cash flow projections used in calculating fair value less costs of disposal are based on the assumptions that a market participant would use when pricing the asset or liability.

207. ANC is not convinced that requiring the use of a single method, rather than the higher of value in use and fair value less costs of disposal, would improve the effectiveness of the impairment

test. This is because an entity does not need to calculate both value in use and fair value less costs of disposal of a CGU in all situations—it needs to do this only when calculating one of these amounts has shown that there may be an impairment.

208. Furthermore ANC thinks the arguments, exposed in paragraphs BCZ9–BCZ30 of the Basis for Conclusions on IAS 36 that led the IASC to retain both value in use and fair value less costs of disposal are still valid and sees, here again, no new information that would lead to reconsider the definition of recoverable value.
209. Because value in use is based on management's best estimate of cash flow projections whereas fair value less disposal cots is based on assumptions that market participants would use, some might think that fair value less costs of disposals is less prone to management over optimism. As explained in paragraphs 124–132, ANCs disagree with the view that management over-optimism is undermining the determination of value in use. In addition, should the level of optimism be somewhat lower if management were to estimate what cash flows other market participants would derive from the asset, ANC notes that the fair value less costs of disposal of a CGU would frequently be based on Level 3 inputs because of the absence of observable inputs. Accordingly, ANC is unsure that fair value less disposal costs would lead to more reliable information than value in use and sees no compelling practical reason to promote the exclusive use of fair value in impairment tests.

Post-tax cash flows and discount rates

210. ANC agrees with the Board's proposal to allow the use of post-tax cash flows and post-tax discount rates. This would align accounting requirements with existing practices, make the test less prone to errors and result in information that is more understandable for users. However, the use of post-tax rate and cash-flows raises issues that, in ANC's view, should warrant further consideration.
211. From a conceptual perspective, ANC thinks difficult for the Board to permit entities to use post-tax cash flows and post-tax discount rates in estimating value in use without clarifying the interaction between IAS 36 and IAS 12 *Income Tax*. ANC notes IAS 36 includes few requirements on how an entity considers income tax in the estimation of value in use (paragraphs 50 and 55 of IAS 36 deal with this matter)—this is consistent with the approach retained in IAS 36 whereby an entity uses pre-tax discount rates to estimate value in use.
212. ANC further notes that paragraph BC93 of IAS 36 includes the following Board's observation: '*the Board decided that any decision to amend the requirement in the previous version of IAS 36 for pre-tax cash flows to be discounted at a pre-tax discount rate should be made only after the Board has resolved the issue of what tax attribute should be reflected in value in use. The Board decided that it should not try to resolve this latter issue as part of the Business Combinations project—decisions on the treatment of tax in value in use calculations should be made only as part of its conceptual project on measurement. Therefore, the Board concluded it should not amend as part of the current revision of IAS 36 the requirement to use pre-tax cash flows and pre-tax discount rates when measuring value in use*'. If the Board were to 'unlock' the requirement that pre-tax cash flows are discounted at a pre-tax discount rate, it should logically consider the long-standing issue of what tax attribute should be reflected in value in use or otherwise explain why the issue would no longer matter. The discussion about what tax attribute should be reflected in value in use is detailed in paragraphs BCZ81–BCZ84 of IAS 36[8].
213. ANC acknowledges that the interplay between IAS 36 and IAS 12 is a complex matter already giving rise to implementation difficulties—this is because many entities already use post-tax discount rates and thus, come across that matter. However ANC thinks that bringing more clarity about this interplay would be helpful.

[8] ANC understands that there are two views about how tax attributes are reflected in value in use: the first view explains that an entity reflects all future tax cash flows (including deferred tax) whereas the second view considers that the entity reflects future cash flows it would expect if it acquired the asset at cost equal to value in use.

214. In this respect, ANC has identified two significant issues that should warrant the Board's consideration:

- paragraph 24 of IAS 12 requires an entity to recognise deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised—in other words, there is a constraint applying to the recognition of deferred tax assets. In contrast, the cash flows used to estimate value in use (in particular those used to compute the terminal value) may include the cash flow effects related to those deductible differences—without any constraint. This may create an inconsistency between the way an entity recognises deferred tax assets and the way it estimates value in use and may result in differing the recognition of impairment losses.
- paragraph 53 of IAS 12 prohibits the discounting of deferred tax balances whereas value in use is computed by discounting cash flows, including some tax cash flows.

Question 11

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

a) Should the Board develop any of the simplifications summarised in paragraph 4.55? If so, which simplifications and why? If not, why not?

b) Can you suggest other ways of reducing the cost and complexity of performing the impairment test for goodwill, without making the information provided less useful to investors?.

ANC's views on the Board's preliminary views

215. ANC agrees with the Board's preliminary view that it should not consider:
    - developing more application guidance on the difference between entity-specific and market-participant inputs (4.55 (a) of the DP),
    - mandating only one method for estimating the recoverable amount (paragraph 4.55 (b) of the DP)—paragraphs 205–209 of this letter set out ANC's views in this respect, and
    - permitting entities to test goodwill at the entity level or the level of the reportable segment (paragraph 4.55 (c) of the DP).
216. However, ANC thinks the Board should develop more application guidance on how an entity identifies CGUs and allocates goodwill to those CGUs. This would help limit the shielding effect and thus, tackle the risk impairment losses might be recognised lately—see paragraphs 135–142 of this letter for further discussion in this respect.
217. ANC also supports amending the requirements on how an entity determines the fair value less costs of disposal of a CGU or of a group of CGUs when the CGU or group of GCU are publicly traded. Lastly, ANC recommends the Board develop application guidance on the implementation of IAS 36 for CGUs comprising leases.

Requirements regarding the determination of the fair value less costs of disposal of publicly traded CGUs

218. An entity determines the fair value of a CGU applying the requirements in IFRS 13. Paragraphs 72–90 of IFRS 13 establish a fair value hierarchy giving the highest priority to quoted prices (unadjusted) in active markets. Accordingly, an entity determines the fair value of a publicly-listed CGU (or a group of CGUs) on the basis of its quoted price. However, this price excludes the control premium an entity would pay for a majority stake. If the CGU is the entity's subsidiary, the entity may need to adjust the CGU's quoted price when determining its fair value.
219. The factors in paragraph 83 of IFRS 13 regarding the assessment of level 2 inputs do not include any adjustment for a control premium. Furthermore, paragraph 53A(c) of IAS 36 explicitly excludes '*legal rights or legal restrictions that are specific only to the current owner of the asset*' from the factors that are generally available to market participants, and therefore from the factors to reflect in fair value. The requirements in IFRS 13 and IAS 36 may imply that an entity does not reflect a control premium when determining fair value.
220. ANC thinks that the fair value less costs of disposal of a listed CGU should reflect the existence of a control premium. ANC is aware of the debates on the 'PxQ' issue that took place during the PIR of IFRS 13 and that the Board finally decided not to change the requirements in IFRS 13 in this respect. ANC believes that as far as IAS 36 is concerned, the issue is slightly different: the question is not whether the fair value of financial instruments should take into account the number of financial instruments held by the investor. Rather, the issue is to measure the fair

value of a set of assets and liabilities that constitute a business, using as observable input the quoted price of one share of the entity holding the business. ANC is convinced that the PxQ formula is not a fair representation of the fair value of the business and recommends the Board undertake standard-setting in this respect.

Impairment test for a CGU comprising leases

221. ANC takes the opportunity of this DP to outline the matter arising when an entity tests a CGU for impairment and the CGU includes leases. This matter has been an issue since the first-time application of IFRS 16 *Leases*.
222. IAS 36 requires including in the carrying amount of a CGU all assets that are used to generate cash flows, and excluding liabilities relating to financing (IAS 36 paragraph 50(a)). Accordingly, lease rights of use should be included in the carrying amount of the CGU whereas lease liabilities should be excluded. Cash flows used to measure the CGU's value in use should be identified consistently.
223. This approach has proven to be difficult to implement. Identifying the cash outflows consistently requires to restate management's business plans in order to:
    - exclude cash outflows from leases that correspond to the recognised lease liability only: variable lease payments, lease payments on short term leases or on leases of low value asset should be kept as operational cash outflows because they are no settlement of financing liabilities. This is not an easy task to perform because management business plans usually do not differentiate rents according to their accounting under IFRS 16;
    - consider investment cash outflows at the end of the lease term, that are necessary to maintain the operational capacity of the CGU after expiration of the right of use.
224. ANC notes that the Board's proposals to simplify impairment tests actually limit restatements between the cash flows used for impairment tests and the business plan established by management. ANC proposes to extend simplifications to the way IFRS 16 interacts with impairment testing. One way of simplification could be to include the lease liability in the carrying amount of the CGU, and to consider all lease payments as operating cash flows for the purpose of measuring value in use.

Question 12

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

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

b) If you do not agree, which of the approaches discussed in paragraph 5.18 should the Board pursue, and why? Would such a change mean that investors would no longer receive useful information? Why or why not? How would this reduce complexity and reduce costs? Which costs would be reduced?

c) Would your view change if amortisation of goodwill were to be reintroduced? Why or why not?

ANC's views on the Board's preliminary view

225. ANC agrees with the Board's preliminary view that it should not contemplate permitting some intangible assets to be included in goodwill. ANC thinks the existing requirements in IFRS 3 and IAS 38 *Intangibles Assets* for intangible assets acquired in a business combination result in information that is useful for the reasons set out in paragraph 5.7 of the DP. In ANC's view, changing the existing requirements would result in additional complexity. ANC's view would not change if amortisation of goodwill were to be reintroduced—ANC's view would even be strengthened.
226. ANC would, in contrast, encourage the Board to consider whether an entity should recognise some additional intangible assets separately from goodwill. For example, ANC questions why IFRS 3 requires the separate recognition of customer relationships—for which no underlying identified contracts may exist at the acquisition date—whereas it prohibits the recognition of an asset for an entity's assembled workforce—for which underlying contracts do exist. The recognition of additional intangible assets would help better understand what the entity has paid for in a business combination and could help reduce concerns about the overstatement of goodwill in the entity's statement of financial position. ANC also notes that the assembled workforce accounts for a growing part of goodwill that service-entities recognise over time and thinks difficult to ignore this economic trend.
227. More generally, ANC thinks it would be difficult for the Board to consider this issue without dealing with the broader-scope issue of the accounting for intangible assets. ANC thinks those two matters are strongly interrelated and recommends the Board not address them separately. ANC acknowledges that the purpose of this DP is not to discuss the accounting of intangibles and accordingly, does not intend to enter that debate in this letter. However, ANC notes:
    - the growing concerns among stakeholders that the existing requirements in IFRS Standards might fail to provide useful information about intangible assets—this is because such assets are perceived as strategic and value-creating resources for entities but many of those assets do not meet the recognition criteria set out in IAS 38. In ANC's view, it would seem counterintuitive to commingle more intangible assets in goodwill, and thus, deprive users from information about intangibles, while there is an increasing need for information about such assets. Recognising less intangible assets would clearly not be the appropriate way forward.
    - the Board's observations in paragraphs 5.23–5.24 of the DP that it did not intend, in the context of this project, to consider the differing requirements for the recognition of intangible assets when those assets are internally-generated and when they are acquired in a business combination. ANC agrees that this project may not be the right place to consider that matter but thinks it deserves further thought, for example in the context of a research project on intangible assets.

228. ANC has outlined below additional information about the specific questions asked by the Board.

The Board should not develop a proposal to include some intangible assets in goodwill [Question (a)]

229. ANC acknowledges the complexity, and thus, the implementation costs related to the recognition of intangible assets in the context of business combinations.
230. However, ANC thinks, on balance, that the recognition of such assets provides relevant information to users. This is because the recognition of intangible assets enables users to better understand what an entity has paid for and therefore, the reasons underlying the business combination. Additionally, ANC thinks that including more intangible assets in goodwill would:
    - not be an adequate response to the concerns of those who think that the value of goodwill is overstated—ANC notes that the recognition of intangible assets reduces the 'shielding effect' described earlier in this letter.
    - create unjustified discrepancy between (i) assets acquired separately—those assets being recognised in the statement of financial position (ii) and assets acquired in a business combination—those assets would be comingled with goodwill.
231. Lastly, ANC agrees with the Board's observation in paragraph 5.25(d) of the DP. Not recognising separately intangible assets that meet the identifiability criterion in IAS 38 would create complexities when an entity disposes of those assets.

The reintroduction of goodwill amortisation would not change ANC's view on this matter [Question (c)]

232. ANC's view on this matter would not change if the Board were to reintroduce amortisation. ANC's view would even be strengthened in this case. Including some intangible assets in goodwill would commingle in the same line item assets of a differing nature and thus, with differing patterns in which their future economic benefits are expected to be consumed by the entity. This would create difficulties in determining the useful life, the amortisation period and the amortisation method for goodwill. The complexity arising thereof would result in implementation costs that are unlikely to make the proposal so beneficial.

Question 13

IFRS 3 is converged in many respects with US generally accepted accounting principles (US GAAP). For example, in accordance with both IFRS 3 and US GAAP for public companies, companies do not amortise goodwill. Paragraphs 6.2–6.13 summarise an Invitation to Comment (ITC) issued by the US Financial Accounting Standards Board (FASB).

Do your answers to any of the questions in this Discussion Paper depend on whether the outcome is consistent with US GAAP as it exists today, or as it may be after the FASB's current work? If so, which answers would change and why?

Foreword

233. The IASB-FASB Convergence project resulted in substantially aligning the requirements in IFRS Standards for business combinations, subsequent accounting of goodwill and the recognition of intangible assets in business combinations on the requirements in US GAAP. This also resulted, in 2004, in IFRS preparers moving from an amortisation to an impairment-only model for the subsequent measurement of goodwill.
234. ANC thinks that the existence of a common accounting framework for business combinations between US GAAP and IFRS Standards has been beneficial because business combinations are often cross border capital market transactions. Accordingly, ANC thinks that IFRS Standards and US GAAP should remain aligned *whenever possible* in this field. However, convergence is not, alone, an argument that would support changing the requirements in existing Standards.
235. ANC analysed the matter of convergence for (i) the disclosures an entity would have to provide about the subsequent performance of acquisitions (paragraphs 236–239) and (ii) the subsequent measurement of goodwill (paragraphs 240–243).

Improving disclosures about acquisitions

236. As explained in paragraph 61, ANC thinks the existence of a level playing field in relation to the disclosures an entity would be required to provide about the subsequent performance of an acquisition is an essential factor that the Board should consider in deciding whether to proceed with its proposals.
237. ANC notes that the FASB's Invitation to Comment (ITC) published in 2019 included a discussion about developing disclosures similar to those included in the Board's DP. In Section 3 of the ITC, the FASB explained some users expected entities to disclose *'more quantitative information, for example, including the key performance assumptions or key performance targets supporting the acquisition and performance against those targets for several years following the acquisition'*. The ITC went on and explained that '…*this information would require that an entity track an acquisition's performance against management-designated targets for several years. This could inject additional cost… Tracking this information also could be complex. For example, if an acquired entity is integrated into existing operations, separately tracking the performance of the acquired business may be extremely difficult, if not impossible. Furthermore, the link between the acquisition price and the quantitative measures required to be disclosed may be indirect and offer limited useful information*'. The ITC outlined legal requirements applying to US preparers and then concluded that '…*given these considerations, [the] ITC is seeking input to help identify on other, operable ideas for new or enhanced disclosures*'.
238. In the light of the discussion included in the ITC and the very limited support expressed by respondents to the ITC for such disclosures, there is a risk that the FASB might not investigate further developing disclosure requirements about acquisitions.

239. Accordingly, ANC thinks essential for the Board to ensure that any further standard-setting about disclosures does not create a competitive disadvantage for IFRS preparers.

Subsequent measurement of goodwill

240. In contrast, ANC's view in relation to retaining the impairment test for the subsequent measurement of goodwill may be unchanged should the FASB decide to reintroduce the amortisation of goodwill.
241. ANC acknowledges that the existence of a level playing field in this respect was one of the most important factors that led the IASB, in 2004, to no longer require amortisation of goodwill—some stakeholders having then expressed concerns about amortisation lowering the financial performance of IFRS preparers compared to their US peers. Applying the arguments existing in 2004, some could think that IFRS preparers could be in a better position compared to their US peers if the FASB were to decide reintroducing amortisation and the IASB to retain the existing requirement.
242. Having said that, ANC has not been made aware of any significant level playing issue in this respect and thinks that divergence would actually be neither positive nor negative information for IFRS preparers. US GAAP and IFRS are not fully converged and capital markets are used to processing financial information that is prepared in accordance with different accounting frameworks. ANC notes that foreign private issuers who use IFRS and are listed on US markets monitor this convergence matter because they are not required to fill in a 20-F reconciliation between IFRS and US GAAP. ANC thinks that differing requirements on the subsequent measurement of goodwill are unlikely to reinstate this reconciliation but acknowledges this matter is worth being monitored.
243. ANC thinks that IFRS Standards and US GAAP should *ideally* remain aligned in this respect. However, convergence is not the overarching goal of standard-setting. Should the FASB decide to reintroduce amortisation, ANC recommends the Board assess whether the facts and circumstances, together with the rationales, supporting that change would equally and appropriately apply to IFRS preparers.

Question 14

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

244. ANC has no other comment to share about the views presented in the DP.

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