DANSKE
REVISORER
FSR*

EFRAG – European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Att.: Ms. Katrin Schöne and Mr. Rasmus Sommer

By e-mail: Rasmus.Sommer@EFRAG.ORG; kathrin.schoene@efrag.org

8 December 2020

FSR – danske revisorer
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 9541
Konto nr. 2500102295

Dear Ms Katrin Schöne and Mr. Rasmus Sommer,

EFRAG's Draft Comment Letter on the IASB's Discussion Paper DP/2020/1 'Business Combinations — Disclosures, Goodwill and Impairment'

The Danish Accounting Standards Committee ('DASC') set up by FSR – Danish Auditors ('FSR' or 'FSR – danske revisorer') is pleased to respond to EFRAG's Draft Comment Letter on the IASB's discussion paper DP/2020/1 'Business Combinations — Disclosures, Goodwill and Impairment' (the DP).

Our response is included in the appendix to this letter. Please note that due to the amount of questions in the DP, it has been necessary for DASC to prioritise the questions selecting those we consider most important. To this end, it should be noted that DASC works under the auspices of an organisation (FSR) representing the auditing industry in Denmark. Furthermore, the DP includes several questions about new proposed disclosure that, in our view, is more fit for prepares and users than for DASC to respond to.

We emphasise that the above-mentioned decision is not in any way meant to suggest that the questions are not relevant but merely that in our view, preparers and users are better placed to respond to the questions primarily regarding disclosure. We do, however, have two general comments regarding disclosure:

1) We think the IASB should consider doing more fieldwork to investigate if the proposed disclosure is in fact information that management produces today and can easily provide in the financial statements without undue costs by inviting users and investors into the same room for discussion.

2) Connected with the auditability issue is whether the disclosure that is difficult to audit is placed better at the front half of the annual report. Until there is a solution to the auditability issue, DASC has a preference that the information be placed at the front half.

Our response should be read in conjunction with the report prepared by EFRAG summarising discussions and input from Danish constituents expressed at the joint online outreach event on 23 October 2020 organised by EFRAG and the IASB together with FSR and the Confederation of Danish Industry (DI).

The main messages in our response to EFRAG's DCL and the DP are:

- DASC is hosted under the auspices of FSR, an organisation representing the auditing industry in Denmark. In this regard, our response draws on experience from the audit industry.

- Re. Question 7, DASC does not express a preference on either the impairment-only model or the amortisation model for the subsequent accounting of goodwill recognising that there are benefits and challenges to both models. DASC reached this conclusion also because members were not able to reach agreement on one preference over the other. We have in response to Question 7 included some viewpoints we believe the IASB should consider – realising that Question 7 is one that divides constituents.

- DASC suggests that the IASB considers consulting with the International Auditing and Assurance Standards Board (IAASB) to obtain input on the best way to solve the issue of auditability regarding many of the proposed disclosure that in our view will be difficult to audit or it would be difficult to obtain adequate audit evidence.

- DASC believes the question about the mandatory annual impairment test is directly linked to the IASB's decision on whether amortisation of goodwill is reintroduced. DASC agrees with removing the need to use pre-tax discount rate & cash flows.

- DASC has concerns about the proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance when calculating value in use (VIU). If retained, DASC believes additional guidance is needed on when it is appropriate to incorporate uncommitted restructurings when calculating VIU.

If you have any questions or comments, please do not hesitate to contact us.

Kind regards,

Torben Johansen
DASC Chairman

Jan Peter Larsen
DASC International Liaison

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?

DASC's response

DASC agrees with the overall objective to provide investors with more useful information about the acquisitions companies make, better information to assess the performance of companies that have made acquisitions and better information to hold a company to account for decisions to acquire a business.

However, before proceeding DASC holds the view that the IASB needs to investigate further how companies have organised their work and monitor the information internally and what the CODM monitors in order to meet the desired objective. This would probably require some field testing and sessions with users and preparers in the same room.

Our response to this question depends on answers to other questions, namely the proposed relief from mandatory quantitative impairment test and proposed simplifications to the test. Our response to these questions depends on whether IASB decides to reintroduce amortisation of goodwill.

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?

DASC's response
As mentioned in the introduction to this letter, investors are best positioned to comment on whether the disclosure requirements would meet their need for better information on the subsequent performance of an acquisition and preparers are best positioned to comment on whether the disclosure requirements are in line with what they do in practice. Item (d) on the commercially sensitive nature of the information is another specific example of a question which should be answered by preparers.

Generally, DASC understands that in some cases, the insights into the proposed information are better at levels below the CODM. Based on comments we heard from the two groups (preparers and investors), we encourage the IASB to conduct field tests with preparers to identify the information produced internally that would be disclosed in the financial statements applying the proposals in the DP and consult investors whether this information indeed meets their needs.

In addition, responding as a committee hosted under the auspices of FSR, an organisation representing the auditing industry in Denmark, we note that the proposed information is difficult to audit. For this reason, our preference is to have the information placed in the front half of the annual report; i.e. in the management commentary, at least until the auditability issues have been solved.

We note that our response to this question depends upon what the IASB decides on reintroduction of goodwill amortisation. If amortisation is reintroduced, DASC is of the opinion that some the proposed information may not be needed. On the other hand, investors will most likely ask for the information regardless of goodwill amortisation.

[54] Questions for EFRAG's constituents

54 As stated above, EFRAG considers that the disclosures proposed in the DP could provide useful information. EFRAG has, however, not yet formed a view on whether the financial statements are the right place to disclose information about the performance of an acquired business compared with management expectations. Among other things, it might be difficult to audit the information if Standards do not provide guidance on how the non-GAAP metrics should be determined.
(a) Do you agree with the IASB's proposal to include the proposed information in the notes to the financial statements? Why/why not? If you disagree with the IASB, do you think it could be included in the management commentary?

DASC's response
In DASC's view it would be most logically placed in the notes to the financial statements. That logic is countered by the fact that the information is difficult to audit. We agree that lack of guidance on non-GAAP measures such as how does one define synergies adds to this concern and we fear it will in many cases end up with the auditor expressing that it has not been possible to obtain adequate audit evidence.

(b) Do you think that the specific information would be more useful, relevant and/or reliable, if it is audited?

DASC's response
The information will without doubt be perceived as more reliable if audited by an independent auditor.

(c) Do you think it would be possible to audit the information/prepare the information in a manner that would make it possible to audit it?

DASC's response
DASC has some scepticism about auditability as mentioned in response to [97] Questions for EFRAG's constituents.

55 Paragraph 42 above states that EFRAG expects that the requirement to disclose that an entity is not monitoring an acquisition could create a market discipline. If you are a user of financial statements, how would it affect your analysis if you receive information that an entity is not monitoring a significant acquisition?

DASC's response
No response, the question is directed at users.

56 The IASB considers that it is possible to disclose useful information on the level of achievement of the financial or non-financial targets initially defined at acquisition date and of expected synergies (see Question 4 below), without triggering commercial sensitivity. EFRAG is interested in understanding whether constituents agree with this approach and would like to receive practical examples in this regard.

DASC's response
DASC believes preparers are better placed to respond to this question.

57 Would there be any constraints within your jurisdiction that could affect an entity's ability to disclose the information proposed in the DP? If so, what are those constraints and what effect could they have?

DASC's response
DASC has not come across any legal constraints in our jurisdiction that could affect an entity's ability to disclose the information proposed in the DP.

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:

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

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

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

DASC's response
DASC agrees with EFRAG that the IASB should develop disclosure objectives to help preparers provide useful information to users on the strategic rationale for management undertaking an acquisition and whether those objectives are being met subsequently to the acquisition.

We note that motivation of the objectives underlying the proposed disclosure could be better. The disclosure objectives appear to focus on the benefits '*expected from an acquisition when agreeing the price to acquire a business*' where, in our view, focus of the disclosures should be on governance and accountability. This includes providing information to understand the objective of an acquisition and how that is being met which is useful for users.

Introduction of new disclosure requirements is generally acceptable provided the IASB is sufficiently clear and specific in explaining the objective of such requirements and the cost of providing the disclosure does not outweigh the cost of obtaining them. DASC generally believes that the need for disclosure decreases if the IASB decides to reintroduce amortisation of goodwill.

Question 4

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?

DASC's response
DASC agrees with EFRAG. DASC has no further comments but refers to our introductory remark that some questions are more fit for prepares or users to respond to.

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?

DASC's response
DASC agrees with EFRAG. DASC has no further comments but refers to our introductory remarks that some questions are more fit for prepares or users to respond to.

[97] Questions for EFRAG's constituents

97 In paragraph 85 above, the preliminary view of EFRAG is reflected that pro forma information should be presented in the notes to the financial statements on revenue and a profit measure (see paragraphs 88 - 93) of the combined business for the current reporting period, as though the acquisition date had been as of the beginning of the annual reporting period. Do you agree with EFRAG's preliminary view to retain such a requirement? If not, please explain.

DASC's response
DASC believes that pro forma information may provide information about the size of the acquiree and volume it brings to the acquirer. It may, however, be problematic to estimate the pro forma information in cases where the acquiree is a part of a business and then the question of auditability arises again. DASC suggests that the IASB considers consulting with IAASB to get input on the best way to solve the issue of auditability regarding information that is difficult to audit.

98 In paragraph 95 above, EFRAG questions the usefulness of disclosing 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. Would you find the suggested information useful? Please explain.

DASC's response
DASC in general does not object pro forma information provided a solution is found on the auditability issue.

[100-102] Question to preparers: costs of the disclosure (ref. Questions 2 to 5)

DASC's response
Questions in para 100-102 are directed at prepares.

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?

DASC's response
Overall, DASC agrees that it does not appear feasible to design an impairment test that is significantly more effective in capturing the "too little, too late" issue and hence to address timelier recognition of impairment losses on goodwill. In our view, designing such a new impairment test will result in the test being even more costly for prepares than the current impairment test that is already costly.

The impairment test may be improved by adding more guidance based on insights and experience from companies where experience shows the impairment test works well. On the other hand, DASC finds it difficult to reject a perception that management optimism and shielding may potentially be reasons why the impairment test today is not considered effective.

[136] Questions for EFRAG's constituents

136 Do you agree that the IASB should consider improving guidance on allocation and reallocation of goodwill to cash generating units as this would improve the discipline in the application of impairment testing in practice? Do you see such improved guidance *in connection with better information about business combinations as a basis for a better assessment on whether there is any indication for impairment?*

DASC's response
Working from the assumption that the impairment test is complex, more guidance is clearly one of the better ways to help preparers and auditors, especially if such guidance is kept uncomplicated and with good illustrative examples. We recognise the downside of this being that some may be tempted to replicate the example forgetting the entity-specific dimension.

An area in need of guidance is what companies not listed and therefore not obliged to follow IFRS 8 on segments should do. To this end, it seems to create problems when IAS 36 references a standard not mandatory for unlisted IFRS preparers.

137 Do you think that the benefit from changing such guidance would outweigh costs? Would there be significant additional costs?

DASC's response
DASC believes preparers are better placed to respond to this question.

138 Do you agree with the IASB's view that management over-optimism is best addressed by auditors and regulators, not by changing IFRS Standards? Please explain why.

DASC's response
No, auditors and regulators can only challenge assumptions; they cannot replace the judgements of management with their own judgements (and that is also not the purpose of an audit of the impairment test). Therefore, looking to auditors and regulators cannot be the solution to this problem.

[139-142] Questions for EFRAG's constituents

DASC's response
DASC did not discuss questions 139-142.

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?

DASC's response
The question whether amortisation of goodwill should be reintroduced is one that divides respondents worldwide. When DASC discussed this question, this division was confirmed because members of DASC were not in agreement and members had mixed views.

After discussing, DASC came to the conclusion that since members were not able to reach agreement for one model over the other, DASC does not express a preference on either the impairment-only model or the amortisation model for the subsequent accounting of goodwill recognising that there are benefits and challenges to both models. However, DASC was able to reach agreement on the following observations:

- The question is in our view best answered by preparers and users.

- Given the division of views not only in Denmark, but also in Europe and outside of Europe, DASC considers it important that the IASB carefully considers the implications of this wide disagreement before concluding.

- Realising that the debate to some extent is based on perceptions rather than hard core accounting technical arguments should not, in and of itself, hold back the IASB from reconsidering its position.

- The discussions at DASC included both arguments that the IASB has heard before and arguments that, while not hard-core accounting technical, in our view should be considered. DASC notes that the arguments discussed tend to favour amortisation. In DASC's view, this is just a natural consequence when coming from a situation with the impairment only model. We do remind EFRAG that DASC did not reach a consensus view and, therefore, DASC does not express a preference on either the impairment-only model or the amortisation model. Considerations from our debate included:

- After 16 years of experience with the impairment only model, we have seen some unfortunate examples of companies that have not survived financial difficulties while having very large amounts of goodwill on their statement of financial position.

- A lot of new business models have evolved since 2004 when the mandatory annual impairment test of goodwill was introduced. Is the impairment test still fit for purpose when it comes to new business models?

- DASC has not observed many write downs for impairment despite both the financial crisis and the COVID-19 crisis. It is difficult to determine whether this observation is caused by correct or incorrect use of the impairment only model. DASC thinks it does, however, give rise to consideration when combined with the fact that the timing for review of strategies and adjustments to business models has generally been shortened due to increased uncertainty.

- Amortisation of goodwill would assist users in assessing managements stewardship of an entity's resources, by reflecting in the profit and loss over time the excess amount paid to obtain future benefits. In DASC's view, this is in line with the principle in the Conceptual Framework paragraph 1:16.

- If the issue of determining useful economic life of goodwill is considered to be a hurdle, has the IASB considered introducing some kind of a cap on the length of the useful economic life? Or a rebuttable presumption that the useful economic life cannot exceed a specified number of years?

- From an auditor's standpoint we note an ever-increasing risk when companies break down carrying large amounts of goodwill on the balance sheet.

- If moving to a trigger only impairment test DASC acknowledges that the problem using judgement and key assumptions to some extent just moves to the impairment triggers and, therefore, the issue of "too little, too late" will probably still exist.

[165-169] Questions for EFRAG's constituents

165 EFRAG would welcome constituents' views and arguments to the IASB questions listed in Question 7 of the DP.
EFRAG is particularly interested in learning whether any new evidence, new arguments or new assessments of the existing evidences have emerged since 2004.

DASC's response
DASC acknowledges that there are no new evidence or arguments listed in our response to Question 7. Nonetheless, DASC holds the view that because views are divided on reintroduction of goodwill amortisation or not, it is important that the IASB carefully considers all arguments, even if not all hard-core accounting technical, before it decides whether to reintroduce amortisation or not.

166 When looking for new evidence and impact analyses, EFRAG invites you to also refer to other areas of regulation that may provide indirect incentives to prefer one or the other approach, such as tax deductibility of goodwill or prudential treatment of goodwill in case of regulated entities.

DASC's response
The area of potential litigations involving auditors of companies who didn't survive a financial crisis having large amounts of goodwill recognised in the statement of financial position is a concern to us.

167 Two of the different arguments in favor of amortization included in paragraphs 156 and 159 above are that:

a) Goodwill is a wasting asset; and
b) Goodwill is an accounting construct, which is not useful to have on the statement of financial position.
Do you think that goodwill (or some of the parts goodwill consists of) is (are) a wasting asset(s)? Do you consider goodwill to be an accounting construct that it is not useful to have recognised in the statement of financial position? Please explain.

DASC's response
DASC has sympathy for both arguments, however leaning mostly towards the argument that goodwill is a wasting asset and inherently raises the question if non-amortisation internally generated goodwill is then recognised.

168 Paragraph 163 states that goodwill impairment losses are often added back when entities are presenting "underlying profit" (or similar non-GAAP measures).

If amortisation were to be reintroduced, do you think that companies would adjust or create new management performance measures to add back the amortisation expense? Why or why not?

DASC's response
DASC acknowledges that if the IASB decides on amortisation being reintroduced, it is likely that companies would add back the amortisation expense in the same way that they currently add back impairment losses and various depreciation and amortisation expenses in the presentation of an EBIDTA subtotal as an APM.

DASC does not, however, see any link between a likely practice of adding back goodwill amortisation and the IASB taking the decision on whether goodwill should be amortised. We think there are already guidelines for appropriate disclosure of such an APM, for instance in the guidelines of IOSCO and in Europe the guidelines of ESMA.

169 If amortization is not reintroduced, do you consider that it would be useful to require companies to disclose information about the "age" of goodwill to reflect which part of their goodwill is older (and thus, by some is considered to be less relevant)?

DASC's response
DASC cannot reject that such a disclosure requirement may have merits.

Question 8

Paragraphs 3.107–3.114 of the DP explain the IASB's preliminary view that it should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. The IASB would be likely to require companies to present this amount as a free-standing item, not as a subtotal within the structure of the balance sheet (see the Appendix to this Discussion Paper).
(a) Should the IASB develop such a proposal? Why or why not?
(b) Do you have any comments on how a company should present such an amount?

DASC's response
DASC agrees with EFRAG and does not either support that the IASB should propose the presentation of 'Total equity excluding goodwill'. Should users find this number useful, it can be easily calculated. Even if some may argue that such a proposal has merits because it displays clearly to both company management and users of financial statements how large a proportion of a company's equity comprises the value of goodwill, it is our understanding that analysts in many cases already have built this calculation into their systems.

In addition, DASC thinks such disclosure has the potential of sending the message that goodwill should be treated differently from other assets or is not as valuable as other assets because there is no such disclosure requirement for other assets. If the IASB thinks differently, the DP should explain why this would be the case. Also, we see a risk that it begs the question whether similar disclosure should be introduced to other assets without physical substance, for instance significant trademarks.

Question 9

Paragraphs 4.32–4.34 of the DP summarise the IASB's preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. A quantitative impairment test would not be required unless there is an indication of impairment. The same proposal would also be developed for intangible assets with indefinite useful lives and intangible assets not yet available for use.
(a) Should the IASB develop such proposals? Why or why not?
(b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21 of the DP)? If so, please provide examples of the nature and extent of any cost reduction. If the proposals would not reduce costs significantly, please explain why not.
(c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23 of the DP)? Why or why not?

DASC's response

DASC agrees with EFFAG and would prefer if EFRAG's final comment letter puts a bit stronger word behind it.

DASC disagrees with the proposal to remove the requirement to perform a quantitative impairment test every year as part of the proposals in the DP noting that the response to this question in our view is closely linked to what the IASB decides on goodwill amortisation.

Moving away from the mandatory annual impairment test to a trigger-based impairment test of goodwill in our view runs the risk that the "too little, too late" issue may still exist. When the DP acknowledges that it is not feasible to design a significantly more effective impairment test to tackle the "too little, too late" issue, it appears counterintuitive to us to consider eliminating the requirement to perform an annual impairment test without any counter measures.

Therefore, in DASC's view, should the IASB decide to proceed with this proposal, it calls for reconsideration of the IASB's preliminary view not to reintroduce goodwill amortisation. Otherwise, in our view, these two proposals in the DP are difficult to reconcile. DASC finds it counterintuitive if IASB on the one hand rejects the idea of reintroduction of goodwill amortisation and then, on the other hand, argues to replace the mandatory annual impairment test with a trigger-based impairment test.

Therefore, our response to this question depends on what the IASB decides on amortisation of goodwill. DASC may be willing to support removal of the mandatory annual impairment test if the IASB decides to re-introduce amortisation of goodwill. This because in our view, amortisation of goodwill would then reduce the pressure on the impairment test.

Question to constituents

197 EFRAG has illustrated in the paragraphs above the implications of and concerns about the adoption of an indicator-only approach.
The IASB has received the feedback that the impairment test is considered to be complex by many preparers. Accordingly, some stakeholders considered that if companies do not perform an impairment test regularly, their expertise in performing the test is likely to decline. Thereafter, it could be difficult for preparers to execute the complex test in a situation where impairment is triggered. This could further reduce the

effectiveness of the impairment test and the confidence in the reliability of the test. Do you agree with this feedback and with the concerns expressed above? If so, what measures could be taken to mitigate this issue? If not, why not and how audit evidence is reached without a yearly impairment test?

DASC's response
DASC agrees with the feedback that the impairment test is complex. In addition to what we already responded to Question 9, we think that all such a proposal does is moving the focus from the key assumptions in the mandatory impairment test to the triggers both of which have proven complex and difficult to document in practice.

Question 10

The IASB's preliminary view is that it should develop proposals:
(a) to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use—cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance (see paragraphs 4.35–4.42 of the DP); and
(b) to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use (see paragraphs 4.46–4.52 of the DP).

The IASB expects that these changes would reduce the cost and complexity of impairment tests and provide more useful and understandable information.
(c) Should the IASB develop such proposals? Why or why not?
(d) Should the IASB propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows that are the subject of this question? Why or why not? If so, please describe how this should be done and state whether this should apply to all cash flows included in estimates of value in use, and why.

DASC's response
DASC agrees with EFRAG on the feedback that the impairment test is considered complex by many preparers.

DASC has concern with the proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance when calculating value in use (VIU), because it makes the line between fair value and VIU unclear. If the IASB decides to remove the restriction in IAS 36, IASB needs to explain better in what circumstances cash flows from a future uncommitted restructuring or from improving an asset's performance in the value in use calculation would be included.

DASC fully supports the proposal to allow companies to use post-tax cash flows and discount rates in estimating value in use as the current requirement to use pre-tax amounts has been a source of significant practical difficulties. Companies, therefore, often use post-tax cash flows and discount rates in estimating value in use and then doing backwards converting into pre-tax amounts.

[217-219] Questions for EFRAG's constituents

DASC's response
In our view, questions 217-219 are more fit for prepares and we have, therefore, not commented. However, in general it appears meaningful to us that management reflects the way they intend to run the business in their calculations, despite the fact that there may also be downsides and risks to such an approach.

Question 11

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

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

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

DASC's response

In DASC's view, the decision not to pursue the simplifications presented in the DP about adding guidance on the difference between inputs used in value-in-use and fair value and mandating a single method for estimating recoverable amount or requirement a company to select the method that reflects the way it expects to recover the asset should be seen in conjunction with the IASB's proposal to remove the restriction from including cash flows arising from a future uncommitted restructuring or from improving an asset's performance in the calculation of value in use.

As mentioned in our response to Question 10, DASC has concerns with the proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance when calculating value in use (VIU).

Our response to the question therefore depends on what IASB decides. If the IASB decides to proceed with the proposal to remove the restriction in IAS 36, DASC's view is that the simplifications proposed in 4.55(a) and (b) may not be necessary.

DASC agrees with the IASB's preliminary decision not to allow companies to test goodwill at the entity level or at the level of reporting segment (which we understand as the segments after aggregation permitted by IFRS 8). It may be considered to suggest that the IASB eliminates the requirement to allocate goodwill at the lowest level at which it is monitored for internal management purposes, such that goodwill should be allocated at the operating segment level before aggregation. In our experience the concept of "monitoring goodwill" is not well understood and often gives rise to discussion with preparers.

Question 12

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

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

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

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

DASC's response

DASC agrees with EFRAG.

[239] Question to constituents that are users of financial statements

DASC's response
Question directed at constituents that are users of financial statements.

Question 13

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

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

DASC's response
DASC agrees with EFRAG.

Question 14

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

DASC's response
DASC agrees with EFRAG.

[258-264] Questions for EFRAG's constituents

DASC's response
DASC did not discuss questions 258-264.