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IFRS Foundation
Mr. Hans Hoogervorst, IASB Chairman
Columbus Building
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Canary Wharf
London
E14 4HD, UK

Via email: commentletters@ifrs.org

Madrid, 23 December 2020

Dear Mr Hoogervorst,

Re: Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment

On behalf of the Commission on Financial & ESG Reporting of the Spanish Institute of Financial Analysts (*"IEAF"* or *"We"*), I am writing to comment on Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment,* published by the IASB on March 2020 (the *"DP"*).

We welcome the IASB's preliminary views on how companies should provide better information so that investors can assess performance and more effectively hold management to account for its decisions to acquire those businesses.

As users of the financial information, we acknowledge that this project is a very important step to improve the disclosure of information and of accounting for goodwill.

The current accounting treatment of goodwill has resulted in a delayed recognition on goodwill impairments. In the following years after the acquisition date, the value of the goodwill on the balance sheet provides a valuation for the acquired business but only if the acquired company/business remains as a company or business unit separated from the acquirer company. Nevertheless, the acquired company or business is usually combined or merger into other preceding business unit and, a few years after the acquisition date, the original data forecasted in the acquired company or business unit could not easily be separated from the performance of the business unit as a whole. In most cases, the management's information by the CODM does not monitor the

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original data forecasted at the acquisition date but only through the impairment test as required by the accounting treatment.

From the analysts' point of view in most of cases, goodwill is totally deducted from equity regarding the financial analysis by the method of discounted cash-flows or revenues. When the impairment is finally accounted for by the company, the share prices are not significantly impacted by the negative impact in the income statement due to the fact that the losses were already well-known by investors for previous years.

Regarding the proposed new disclosure requirements, we supports the IASB's efforts to improve the disclosure of information and on accounting for goodwill. As users of financial information, we support more specific disclosures to better assess companies - acquisitions.

Finally, we acknowledge the impairment test for cash-generating units containing goodwill significantly is effective at recognising impairment losses on goodwill as set out in IAS 36 Impairment of Assets. Nevertheless, we encourage to IASB to consider to a double approach including both amortization and the impairment test.

Companies should combined the regular impairment test (on an annual basis) jointly with the amortization of goodwill on the basis of recognition of the expected revenues/cash-flows during the following years after the acquisition date. For these years, the equity value of the cash-generating unit is increased by the revenues of the acquired business and the synergies of the combined transaction. Therefore, the book value (including equity plus goodwill) of the acquired cash-generating unit increased in the same amount. Nevertheless, the fair value does not increase in the same path and this fact results in an impairment a few years after the acquisition date.

If you would like to discuss the views expressed in this letter, please do not hesitate to contact us via email: frc@ieaf.es

/s/ Gregorio P. Gil, Chairman

On behalf of IEAF Commission on Financial & ESG Reporting