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Mr Hans Hoogervorst
Chairman
IFRS Foundation
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Email: commentletters@ifrs.org

15 December 2020

Invitation to Comment – DP/2020/1 – Business Combinations – Disclosures, Goodwill and Impairment

Dear Mr Hoogervorst

We are pleased to respond to the IASB's Discussion Paper in respect of the above captioned matter.

We welcome the IASB's efforts to provide investors with more useful information about acquisitions and to simplify the impairment test. However, we have concerns about the effectiveness of the current impairment-only model as we observe that impairment losses are often not recognised on a timely basis in practice. We support the reintroduction of amortisation as we believe acquired goodwill is a wasting asset with a finite life and amortisation is therefore necessary to reflect the consumption of acquired goodwill's economic benefits. Amortisation is also a practical means of taking pressure off the impairment test.

We would be pleased to respond to any comments the Board or its staff may have about our response. If you have any questions or comments please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon
Global Leader, Quality & Risk
RSM International

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Question 1 – Meeting the objectives of the project

We are supportive of the project's objectives and agree that the benefits of additional information about the businesses acquired by companies are likely to exceed the costs of providing it. Our comments on specific proposals are set out below.

Questions 2-5 – Improving disclosures about acquisitions

We agree that investors should be provided with better information about the subsequent performance of an acquisition and support the 'through the eyes of management' approach adopted by the IASB as a basis for disclosure. We also support specifying that liabilities arising from financing activities and defined benefit pension obligations are major classes of liabilities. Further, we agree with the proposals on pro forma information and recommend that the IASB develop guidance for companies on how to prepare it and require disclosures about the basis of preparation.

However, we have concerns that some of the proposed disclosure requirements (for example, the metrics used by the CODM to monitor whether the objectives of the acquisition are being met) could be considered commercially sensitive by many companies and ask the IASB to balance this carefully with the benefits to investors. The synergies from the acquisition will often be difficult to quantify on a reasonable basis. This information may not be available without undue cost or may not be sufficiently reliable. We recommend that the IASB consider whether some of the disclosures (for example, management's strategy and objectives for the acquisition and the extent to which management is meeting its objectives for the acquisition) should be included in the management commentary rather than in the notes to the financial statements. The difficulties in obtaining sufficient appropriate audit evidence to support the disclosures and potential additional audit costs for preparers need to be weighed carefully.

Questions 6-8 – Can the impairment test be made more effective?

We agree with the IASB's preliminary view that it is not feasible to design an impairment test that is significantly more effective at recognising impairment losses on goodwill on a timely basis than the current one. The headroom approach in our view is likely to be difficult to understand and apply.

We believe that the IASB should reintroduce the amortisation of goodwill. Periodic amortisation would reflect the diminishing value of acquired goodwill and would reduce the pressure on the impairment test. The amortisation period could be based on period over which the benefits that management anticipated from the acquisition when agreeing the price are expected to be realised. We recommend that the IASB consider including a rebuttable presumption that the useful life of goodwill is no longer than 10 years for reasons of simplicity, reduced cost and auditability. Amortisation would also promote consistency in financial reporting between companies that grow organically and those that grow through acquisition.

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We consider acquired goodwill to be distinct from internally generated goodwill. Acquired goodwill is a snapshot of goodwill at a historical acquisition date. It is measured indirectly as a residual being the difference between the consideration paid and the net fair value of the identifiable assets and liabilities acquired. It may include elements that would not be part of internally generated goodwill, for example, overpayments or measurement differences. Internally generated goodwill is a dynamic concept and changes over time as the entity's value changes.

We believe that acquired goodwill is a wasting asset with a finite useful economic life. The expected benefits embodied in the acquired goodwill will either be realised or reduced over time. For example, synergy benefits will be realised as the combined businesses are restructured or an acquiree's skilled workforce may leave or retire. In many cases, acquired goodwill will be replaced by internally generated goodwill as companies continually invest to maintain or enhance their market position and competitiveness. This internally generated goodwill is not permitted to be recognised as an asset. Amortisation prevents it from being recognised implicitly to the extent that it replaces acquired goodwill.

We do not agree with the IASB's proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. This presentation could raise questions about whether goodwill is an asset or about the reliability of the carrying amount. In any case, the figure is easily calculated and therefore we do not believe that the proposal would significantly enhance investors understanding of a company's financial statements.

Questions 9-11 – Simplifying the impairment test

We would support an indicator-only based approach provided amortisation of goodwill is reintroduced. If an indicator-only based approach is adopted, we recommend that companies be required to establish and disclose their impairment indicators at the time of the acquisition, which should be either inputs into a quantitative impairment model or linked to those inputs, and to update their impairment indicators periodically.

If the current impairment-only model is retained, we believe that the requirement to test goodwill annually for impairment should be retained otherwise the impairment assessment would be less robust. In addition, useful information for investors such as key assumptions, discount rates and growth rates would be lost.

We support allowing companies to use post-tax cash flows and post-tax discount rates in estimating value in use as this approach is commonly used in valuations in practice. We also support removal of the restriction that prevents companies from including cash flows arising from a future uncommitted restructuring or from improving the asset's performance in value in use however we recommend that further guidance and disclosure requirements be added in relation to such assumptions.

We support the IASB's view that it should not further simplify the impairment test. However, we recommend that the IASB consider adding guidance on the identification of CGUs and on allocating goodwill to CGUs as this is a practical issue for many companies.

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Question 12 – Intangible assets

We support the IASB's preliminary view that it should not develop proposals to allow some intangibles assets to be included in goodwill. Our view would not change if amortisation of goodwill were to be reintroduced. We believe that separate recognition of intangible assets acquired in a business combination provides useful information to investors about what companies have paid for. Intangible assets that have finite useful lives would not be amortised if subsumed into goodwill and this would increase the pressure on the impairment test.

Question 13 – Convergence with US GAAP

None of our answers depend on whether the outcome is consistent with US GAAP. However, we would encourage the IASB to work together with the FASB towards converged proposals where possible.

Question 14 – Other comments

We have no other comments.

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