The Chairman of the IASB,
Columbus Building,
7 Westferry Circus,
Canary Wharf,
London E14 4HD,
United Kingdom.

17 December 2020

Dear Mr. Hoogervorst,

Ref: Discussion Paper DP/2020/1 Business Combinations – Disclosures, Goodwill and Impairment

We are pleased to provide comments on the Discussion Paper DP/2020/1 Business Combinations – Disclosures, Goodwill and Impairment (the DP). The response to the questions raised in the DP may be found in the Appendix.

We would, however, draw your attention to the major concerns that we have, which centres on the issue of the proposals to require detailed and quantified disclosures about the objectives of the acquisition and the actual performance of the entity against those objectives. Such information is usually of a commercially highly sensitive nature and we believe that the disclosure of such detail in compliance with these proposals would be damaging to the ability of the entity to achieve its competitive objectives. As is the case with the evaluation of the benefits to users, it is of course extremely difficult to quantify the cost of such potential damage. We would therefore request that the Board reconsider these proposals and consult deeply and widely with all stakeholders to identify what is really essential, and whether and how this could be achieved without causing collateral damage.

In the same vein, we believe that the users of IFRS must not be placed at a competitive disadvantage by their being obliged to provide more extensive and detailed information of a potentially sensitive

nature compared with preparers under US GAAP. European companies must be able to compete on equal terms from the point of view of disclosures.

If you have any questions about our responses to the questions, please do not hesitate to contact us.

Yours sincerely,

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Lise CHORQUES	Lé Quang TRAN VAN	Karine MERLE

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 project's objective, as laid out in paragraph 1.7 is, at <u>a reasonable cost</u> to the companies concerned, to provide investors with more useful information about the acquisitions made and thus to enable investors better to assess the performance of those companies and their management. The discussion in paragraphs IN50 to IN 53 implies that the Board sees a trade-off between the additional cost of providing more information about the acquisitions on the one hand, and the reduction in costs that could be achieved through the simplification of some aspects of the current requirements for the testing of goodwill for impairment on the other. The Board's view is that this package is the most cost-effective way of achieving the benefits for the investor.

We do not agree with this assessment nor with the approach that can be inferred from the presentation as a package, i.e., that the simplifications of the current impairment test come at the price of increased disclosures about the objectives and metrics of the acquisition.

We think that the assessment does not take into account the entirety of the costs of the proposals. Whilst the proposed simplifications would certainly reduce effort and costs for some entities, and the provision of the increased disclosures might not represent a great deal of effort and immediate cost for entities, we believe that the consequences of the publication of the confidential and sensitive information as proposed could be very serious and widespread. This could cover a range of induced costs from a reduction in competitive positioning to an increased risk of litigation from many sides. These matters are discussed in our response to Question 2 and others below.

In respect of the package approach, the simplifications proposed to the impairment test make sense and would help many companies reduce effort and hence costs. These measures are valid and would be welcome on a "stand-alone" basis. However, we think that it is unlikely that many entities would consider that such savings would be sufficient to warrant the provision of the increased disclosures and the potential for commercial damage that they represent.

We think it would be very unfortunate for the Board to insist on this quid-pro-quo approach and thus deprive IFRS-reporting companies of a real opportunity to reduce costs at no loss to the quality of information provided by the impairment test.

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?*

We understand that the objective of the proposals of this ED is to allow users of the financial statements to assess the decision taken by the management of the acquiring group to invest in a business. Although we accept the validity of this objective, we think that the IASB has gone too far in its proposed requirements. In our view, the statement of the disclosure objectives, as indicated in Question 3 below, accompanied by non-mandatory guidance or examples of suitable disclosure would be sufficient. It seems curious to us that while in its conceptual framework the IASB does not recognise the entity's management as a "principal" user of the accounts, it is proposing that the external users should benefit from the same level of information as the management. However, most stakeholders would accept that not all the information held by the entity can be disclosed without risk to the entity (see the comments on the sensitivity of confidential information).

Moreover, the types of information that the IASB proposes to require seem to us to be generally of the nature of that which responds to the objectives of the "Management Commentary" as the IASB describes them:

"information about the entity's performance and position should focus on the key facets of performance and position and cover:

- *what the key facets of performance and position are and how management monitors those key facets;*
- *what affected the entity's performance for the reporting period or could affect performance in the future, including over the long term;*
- *what affected the entity's position at the end of the reporting period or could affect the position in the future, including over the long term; and*
- *how the entity's performance and position reported in its financial statements compare with previous expectations."*

In our view these requirements go beyond the realm of accounting and once again raise the question of the boundary between the financial statements (including the notes) and the other vectors of communication, such as, for example, the management report even though this might not exist in all jurisdictions.

Moreover, the source of the information required is essentially the expectation of management and is thus much more subjective than the segment information that entities provide elsewhere in the notes to the financial statements. We wonder, therefore, whether auditors will be able to validate this information with a reasonable degree of assurance.

It makes sense to provide information as at the date of the acquisition about the objectives of the operation and the source of the goodwill, but this is frequently provided outside the financial statements and could be referred to in the financial statements. However, it does not seem to us to be the role of the financial statements to provide quantitative information about the expected

performance of the investments and this requirement would often lead to the risk of disclosure of highly sensitive nature. European companies already provide much more information than their US equivalents, and it is not clear to us that this project is consistent with the protection of European interests.

(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?*

In respect of the scope of the information to be provided about the objectives pursued, we are of the opinion that setting this scope by the reference to the CODM alone might be too restrictive in some instances. If the acquisition is material it should be subject to the same communication objectives, whatever the level of internal monitoring. This reference to the CODM raises the question of its consistency with the aggregations carried out for the needs of segment reporting and the allocation of goodwill to Cash Generating Units which are often identified at a lower level than the segments.

(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?*

Yes, we think that there are significant concerns about commercial sensitivity. See our response to Question 4 on expected synergies where there is the same problem of confidentiality.

(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?***

We do not agree with the premise stated in paragraph 2.30. Information established or generated at the time of the acquisition is forward-looking by nature, even though it was determined in the past. The quantified expected outcomes from an acquisition are necessarily projections into the future of what management expects from the transaction in terms of profitability, etc. Consequently, the IASB must accept that this information is of the nature of a projection into the future. This is, of course already the case for other accounting elements or information (notably in impairment tests, for example), and we think that the forward-looking nature of this cannot be denied.

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?

We find this approach curious and not in line with the current discussions at the IASB about the improvement of disclosures.

We think that it would be more relevant to:

- Begin to establish the principles and objectives of disclosures (as described in this question) before drawing up a list of detailed information required (as is proposed in the preceding section of the DP).

- Then allow entities to define the information that they judge to be relevant to achieve these objectives, and to help them by suggesting information which might make sense but without making it mandatory.

Having said that, we agree with the objectives themselves provided that this does not result in the systematic disclosure of quantified sensitive information and that it can be done by reference to information that is communicated through other vectors (such as the management report).

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?

We understand that the information required by paragraph 2.64 would be required for all instances where an acquisition has generated significant amounts of goodwill, whether these be monitored by the CODM or not. We think that there should be a pervasive logic in the definition of the scope of information required, otherwise there will be a risk that there will be a loss of consistency in the information communicated as a whole. See our comments about the CODM.

Although we can see the usefulness of providing some more detailed information about the expected synergies, we think that making the provision of quantitative data about synergies mandatory will lead to the risk of negative consequences which will out-weigh the expected benefits:

- In some cases, information of a highly sensitive nature might be given to competitors (about margins, costs and competitive strategies, for example), to employees (restructuring or other plans in advance of a proper announcement), not to mention to clients who might take advantage of this to demand a share of the expected synergies through a reduction in the price charged to them.
  Furthermore, one acquisition may be a first step toward a broader commercial development strategy that will give rise to future acquisitions on which the entity does not yet wish to communicate.
  Indeed, some synergies may be expected from companies that have not already been acquired and communicating about these will be very detrimental to the realisation of the group's strategy.

- This information is often difficult to determine with a high degree of reliability. Estimating expected outcomes for internal use is a very different matter from communication to the markets through the financial statements. The latter implies an audit and a high level of objective reliability. Whereas the management can accept the fact that the estimations it uses might turn out differently, external users might not be so accepting of the same level of uncertainty.

- Once information of this sort has been provided in the first year, it is obvious that an expectation will be created that similar information about synergies and other objectives will continue to be provided, even though the standard itself may not require this.

- Groups which are subject to these proposed requirements would be placed in a disadvantageous competitive position compared with those that are not subject to similar constraints, such as those that use different accounting frameworks (US GAAP, for example).

To sum up, we are favourable to the provision of more detailed qualitative information about expected synergies (which are already often communicated elsewhere, such as in the management report, for example), but we are opposed to any requirement to provide any quantified estimates in this respect. One must not forget that the range of users of financial statements is not limited to investors and providers of capital. Amongst users one also finds competitors, employees, clients and others. The IASB must, therefore, ensure that any request for information that it may judge to be useful and legitimate for one category of users, would not, if communicated to other categories of user, turn out to be detrimental to the reporting entity

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?

We are in favour of the proposal to refocus the proforma disclosure on the operating profit rather than the current level of net profit or loss. We think that this makes sense and the arguments laid out in paragraph 2.78 are well made. We understand that the intention behind these proposals for adjustments to this starting point is to eliminate from the comparative figures any non-recurrent element which might distort the projection of future operational results. It is for this same reason that many of our members present in their primary financial statements a "current" or "recurring" operational result intended to allow better forecasts of operational results over the long term.

Having said that, we think that the IASB should limit its guidance to the statement of the principles involved (that is, to draw up the pro-forma results based on an operational result adjusted to exclude any element which could hinder the understanding or construction of the projections of the results of the new consolidated entity) without dictating the adjustments to be made.

In this respect, we have the following comments:

- Acquisition costs: the Board's proposal implies that these should be presented in the operating result whereas nothing in the current standards requires this. We do not think that the IASB should standardise the presentation of the income statement by way of disclosure requirements. The principle that we discuss above should lead entities which have incorporated significant acquisition costs in their operating result to exclude these logically from the operating profit, particularly as these costs are already disclosed elsewhere.
  Integration costs: these are not defined and can be difficult to evaluate and / or sensitive to divulge. Not all groups monitor these costs, particularly as these can be widely diffused throughout the group and spread over several years following the acquisition in accordance with the process of the integration of the acquired businesses. Here again, the establishment of a clear principle rather than detailed guidance would allow entities which have material integration costs which they track to eliminate them from their pro-forma figures if they judge it necessary for a proper understanding of the information provided.
- The requirement to add a requirement to disclose cash flows from operating activities on a pro-forma basis – we think that the simple argument in favour of this, consisting of two lines in paragraph 2.81, is very lightweight in view of the significant cost of providing this new pro-forma information that we anticipate.

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?

In our view the method used for the impairment test for goodwill is satisfactory. We followed the Board's discussions on the "headroom" approach with some apprehension and we are content that it has been abandoned.

The quality of the assumptions used for the impairment tests is the responsibility of the preparers and under the watchful eye of the auditors. Users of the financial statements are free to challenge the management if they are of the view that the assumptions used are too optimistic. We are aware that some think that write-downs are generally recognised "too late" but it is the case that management assessments do not occur instantly, being rather the result of a mature assessment of the economic situation. An unfavourable event or economic environment does not necessarily have an immediate effect on the long-term value of a CGU. Impairment tests reflect reasonable long-term assumptions

and are strongly affected by the residual value, and thus are not immediately modified by short-term adverse events.

We believe that it is quite proper not to react to the arrival of a crisis by an immediate impairment: even if the data were available to allow cash-flow projections to be adjusted, the revised value in use could still in many instances allow the carrying values of goodwill to be supported for a few more years.

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?

We are of the view that the DP provides very few conceptual arguments of weight and does not develop adequately those that it presents, whether they be in favour of, or against, amortisation, and we find this regrettable in a document Intended to aid reflection and discussion.

Of all the arguments in favour of the reintroduction of amortisation dealt with in paragraph 3.88(a), only the last one appears to us to be sound, that is, that the goodwill can be a "wasting" asset with a finite useful life. It would thus be appropriate to apply amortisation to reflect its consumption over time. The other reasons merely add weight to the argument of those that are of the view that the very recognition of goodwill as an asset is not relevant. In this case, it would be more consistent to prohibit explicitly the recognition of goodwill as an asset or to account for it as a reduction of capital. The IASB appears to be leaning in this direction when it proposes a virtual deduction from share-holders' funds as a disclosure. As far as the arguments against the reintroduction of the amortisation of goodwill are concerned, we share the second, that is, that amortisation should not be reintroduced just to compensate for the short-comings of the impairment test or because some find the levels of goodwill in companies to be too high in general.

Moreover, we think that this issue is closely linked to the non-recognition of certain intangible assets (see our response to Question 12) and that there is not one universal response for all situations.

It might, for example, be appropriate to amortise goodwill which reflects the synergies expected over a certain period and a certain activity, because it is attached to operating rights limited over time and is not available for other areas of the group's activities. In this case, the fact that one can determine

objectively an economic life and a corresponding length of amortisation could be a good indicator that this method is relevant in this case. On the contrary, even though synergies may be linked to a contract limited in its economic life, it would not be relevant to amortise the goodwill over that period if the synergies can be extended to other similar activities or contracts

Goodwill may arise because some "assets acquired" could not be recognised as an asset or would be recognised at a value different from that estimated by management. The relevance of the amortisation of goodwill therefore depends on the nature of these assets. Some assets/goodwill may have a definite and determinable useful life and therefore make amortisation relevant but, in other cases, goodwill is generated by an underlying asset with an indefinite useful life on the day of acquisition. Thus, perhaps the first step should be to re-examine how IFRS 3 might allow the appropriate assets to be recognised and for what appropriate value. Moreover, we believe that other components of the goodwill such as overpayments or overvaluation of the consideration paid are more likely to be recognised in net income as a result of the impairment testing process.

If goodwill were to be amortised, it should therefore not, in our view, be on the basis of an arbitrary and uniform amortisation period. As far as possible useful lives should reflect the economic environment of the entity and the specific circumstances and attributes of each acquisition.

We therefore believe that the accounting for goodwill is not a precise science and we cannot at this stage be limited to the binary choice: for or against depreciation

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?

We struggle to find any rational basis for this proposal:

- Once the IASB has confirmed that goodwill is an asset which has to be recognised as such (and it has) there is no reason whatsoever to present it on a pro-forma basis in the financial statements, particularly because to do so will call into question the nature of goodwill as an asset. If some users consider that the financial statements should be adjusted in this way, then they will be able to do so themselves if goodwill is presented as a distinct and separate element on the balance sheet. We think that it is unfortunate and potentially damaging to its credibility that the standard setter should propose to undermine its own principles in this way.
- In contrast, if the IASB has doubts about the appropriateness of recognising goodwill as an asset, then it should be more direct in its approach and either reintroduce amortisation or require goodwill to be deducted from shareholders' funds.

- As a final thought, if the IASB wishes to maintain this proposal, and we would advise against it, then why not adjust the asset side of the balance sheet as it is there that the goodwill is held?

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?

We are in favour of this proposal, which would alleviate the workload in the case of goodwill and CGUs for which it is clear that there is no loss of value. However, we would point out that this potential simplification is heavily outweighed in the "package" by the proposed disclosures about the performance indicators defined at the time of the acquisition and even more so by their monitoring over time. We recommend that this information on the monitoring of performance be made mandatory only when there are indicators that the situation has deteriorated compared with the initial expectations.

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

We agree with this suggestion. We think that this allows the data used for the calculation to be fully consistent with the cash flows projected and analysed by the management and makes the calculation consistent with assumptions and targets on which the purchase price was determined.

• 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).

We agree. We think that the standard should not impose a single discount rate. What is important is that the cash flows and discount rates used are fully consistent with one-another.

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.

a) We think that these proposals would facilitate the close alignment of information used for in-house planning purposes with the accounting objective, thereby reducing the burden of the preparation of the financial statements.

b) We do not think that any further "discipline" is required.

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?

We think that the simplifications proposed by the DP represent good progress. However, we are concerned by a new difficulty which has arisen with the application of IFRS 16.

While the proposed simplifications are aimed at aligning the cash flow projections used internally by management with those used for accounting purposes, the application of IFRS 16 could create a new divergence. For some stakeholders the adoption of IFRS 16 requires:

- The integration of the Right of Use asset in the net book value of CGUs, without the corresponding inclusion of the lease liability, which is treated as a financing debt
- The adjustment of the cash flow projections to exclude the payment of lease instalments, but only for that part which leads to the recognition of a liability under IFRS 16;
- The assessment of the impact of contract renewals;
- The adjustment of the discount factor to take into account this new "type of financing".

Apart from the fact that market-based information about post-IFRS 16 WACCs is not yet available, the adjustment of cash flow projections is very complex, notably when groups have a broad divergence in the rentals paid (variable rent, fixed rent, short-term rent, low-value contracts).

If we accept the principle that the application of an accounting standard should not increase the risk of a loss of value (the latter being an economic element), then we think that the complexity of this model does not make sense. We would therefore request that the IASB examine this aspect of the impairment test and confirm that a simpler approach could be applied – one which would not require the adjustment of cash flows or the WACC.

On the subject of the retention of just one value for the recoverable amount: although this proposal might seem at first sight to simplify the impairment test, we are not convinced that it provides an effective solution. We accept that fair value is often difficult to obtain and may not necessarily reflect the expected use of the assets. However, the establishment of a fair value when possible has the advantage of providing an alternative value which can be used to test the reasonableness of the value in use. We therefore believe that the current method is relevant and should be maintained.

Nonetheless, if only one method of calculating the recoverable amount were to be retained, the value in use is the one that should be chosen as being the more relevant since VIU reflects the way in which management expects to extract value from the asset or assets.

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?

We think that the question of which intangible assets should be recognised in a business combination is indeed a key issue in the accounting for goodwill and in communications related to it. As we have stated on several occasions in the past, in our view the requirements of both IAS 38 and IFRS 3 in respect of the recognition of intangible assets are obsolete and do not allow for the proper reflection of new economic activities. Although some amounts of goodwill are indeed the result of an excessive price being paid, other amounts are generated by the acquisition of items that cannot be recognised separately today. Perhaps the most obvious example of this is the workforce in a service business. If such elements could be recognised separately, then:

- The amount of goodwill would be reduced arithmetically;
- The accounts would provide directly observable information to users;
- The elements accounted for could probably be amortised over useful lives which would be less arbitrary than that of goodwill.
- The forthcoming developments on non-financial information will shed new light on these intangibles with, in the first instance, an objective of simple disclosure. It could be of use also for the IASB to consider the possibility of permitting the accounting recognition of certain items in the context of business combinations.

In contrast, the standard obliges us to identify and value separately certain intangible assets whose evaluation is not always reliable. It might now be appropriate to review these obligations, particularly in respect of those elements which are not amortisable.

The approach proposed in paragraph 5.18, which is an approach by default, might be a way to resolve this question, but does not address the question of new types of intangible assets which could be recognised separately.

In respect of the list of criteria proposed in paragraph 5.18:

- The first seems to us to be too "rules-based" without conceptual justification;
- The criteria (b), (c) and (d) would prevent the separate recognition of assets which are not recognised today and for which separate recognition would perhaps be justified;
- The last criterion (f) could be complemented by the characteristic that there is an inherent difficulty in arriving at a reliable estimation of its value. In our view, the separate recognition of an intangible asset always provides useful information, even if it is not amortised, except when its value is not determinable in a reliable manner. This aspect annuls the benefit of separate recognition.

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 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?

We think that it is preferable that the two GAAPS stay aligned on the matter of amortisation, or otherwise, of goodwill in order to maintain a level of comparability.

We are also very concerned about maintaining a level playing-field in respect of the requirements for information to be provided in the notes. The proposals of the DP would place European groups in an even more exposed position than today in respect of the requirements to provide competitively sensitive information. US companies currently provide less information than entities subject to IFRS in respect of business combinations, impairment and other potentially confidential matters.

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?

The DP does not explore one idea that could possibly reduce pressure on the impairment test and respond to the criticism that management has a view of the prospects which is too optimistic: the authorisation of the reversal of goodwill impairment in certain cases. We refer in particular to quarter ends when the recognition of permanent impairment based on an exceptional and reversible set of circumstances does not make sense. A recent example which illustrates this is that of the COVID-19 crisis. Some groups may have been very loth to recognise an impairment of goodwill at 30 June since they knew that they could not reverse these impairment charges in the second half, even if the economic situation improved.

In respect of the reversal of impairment during a different annual accounting period, we can understand that the IASB might not wish to allow a reversal justified by the effect of internally generated goodwill in the CGU since internally-generated goodwill is not recognised. However, it might be opportune to reflect on the authorisation of reversals of impairment of goodwill during a restricted period following the initial impairment when the entity can demonstrate that it is a reversal generated solely by the evolution of the assumptions used for the initial impairment (assumptions such as the evolution of the WACC, the long-term growth rate, etc).

Finally, we note that the IASB has not considered a further problem of IFRS 3 in spite of its being raised by several contributors to the PIR of IFRS 3. This is the matter of the treatment of variations in percentage holdings, particularly in the case of step acquisitions. We therefore take the opportunity to remind the Board of our own comments to the PIR:

Accounting for step acquisitions, loss of control and other changes in ownership interests are the aspects about which we have the most concerns. The IASB developed all these new provisions from an "entity perspective" without proper debate and justification of its decision, since the chapter relating to the reporting entity is not yet finalised.

It appears that the accounting outcomes resulting from these transactions are most often judged to be counter-intuitive, both by the management who implement the transactions and by the external users who are struggling to understand and to forecast their impact. Indeed, the recognition in net income of the effect of remeasuring previously held or partially retained investments is not relevant, as this is not part of the group's performance over the period: gains and losses on investment should be recognized in profit or loss only when the investment is sold (or impaired). Conversely, not to recognise any impact when interests are sold but the subsidiary remains controlled is not relevant as it does not reflect the real transactions and cash exchanges that have really occurred. Moreover, amounts recognised directly in equity due to "transactions between stakeholders" are never recognized through net income even when the group loses control.

In consequence, we ask the Board to take advantage of this post-implementation review to ensure that these provisions really do improve the quality of reporting, that they respond to some needs clearly expressed by users and that they are not merely the outcome of conceptual thinking based on the notion of the "entity perspective" that has still not been validated in the conceptual framework.