IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Secretariaat:
Antonio Vivaldistraat 2, 1083 GR Amsterdam
Postbus 7984, 1008 AD Amsterdam

T +31(0)20 301 03 91
secretariaat@rjnet.nl
www.rjnet.nl

Our ref: RJ-IASB 494 D
Date: Amsterdam, 07 December 2020
Re: Comments on DP/2020/1 'Business Combinations – Disclosures, Goodwill and Impairment

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on the Discussion Paper DP/2020/1 'Business Combinations – Disclosures, Goodwill and Impairment' (DP). In doing so, we also refer to EFRAG's draft comment letter dated 29 May 2020 (DCL). We generally agree with the comments provided by EFRAG, unless indicated otherwise in this letter including the appendix.

The DASB welcomes the IASB's efforts to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. At the same time, we also emphasise that the proposals provided in the DP should strike a balance between the identified issues with regard to the current impairment test of IAS 36, and the administrative burden for companies as a result of the proposals.

Overall, we believe that most of the disclosure proposals are improvements compared to the current disclosure requirements with regard to acquisitions and will provide useful information to investors. Furthermore, we are in favour of some of the proposed simplifications to the impairment test as well, but we also have concerns with regard to certain proposals and suggest some potential improvements. Our main concerns to the proposals are as follows (in the same order as the DP):

Section 2 – improving disclosures about acquisitions

- While there is no consensus whether all of the disclosure proposals set out in question 2 sub (b) of the DP are useful, we unanimously share the view of EFRAG that the information proposed should not only be based on information monitored by the CODM.
- Based on the nature of the proposed information, which contains both non-GAAP information and forward-looking information, we question whether the information as proposed should be part of the financial statements or instead should be part of the management commentary.
- Although we believe the disclosure proposals on synergies as included in question 4 provide useful and relevant information about acquisitions, we are of the view that these

metrics should not be required on a 'rule-based' manner as proposed by the IASB, as businesses can be acquired by management for several reasons.
- We generally support the view that the current requirements for companies to prepare the pro forma information should be retained, but due to its complexity and inherent lack of comparability and reliability we do not favour the proposals of the IASB in question 5.

Section 3 – Goodwill impairment and amortisation
- Like the IASB, we believe it is not feasible to design an impairment test that is significantly more effective at recognising impairment losses on goodwill on a timely basis. However, we are of the opinion that the effectiveness of the current impairment test of IAS 36 can be improved by amending the current principles for goodwill allocation to cash generating units, such that goodwill is allocated to the appropriate level at which the acquired business is (integrated and) monitored..
- Many DASB members support reintroducing the amortisation of goodwill and therefore do not agree with the initial view of the IASB. The respective arguments on amortisation of goodwill have not substantially changed since 2004.
- We do not support the IASB's proposal to require companies to present the amount of total equity excluding goodwill on the face of the statement of financial position. The 'total equity excluding goodwill' could lead to undesirable consequences and in our view does not provide investors with useful information about the acquisitions.

Section 4 – Simplifying the impairment test
- The DASB welcomes the IASB's effort to explore whether it could simplify the impairment test, when this is possible without making it significantly less effective and robust. However, we do not support the proposed indicator-only approach. In our view, an indicator-only approach is not a simplification of the current impairment test but a conditional relief for the annual required quantitative impairment test.
- The DASB conditionally supports the proposal to remove the restriction in IAS 36 that prohibits companies from including certain cash flows in estimating value in use. We support the IASB's proposal to allow these cash inflows and outflows to be incorporated in the cash flow projection for the determination of the value-in-use of the CGU. We are of the opinion that general principles are needed to ensure the reliability of the value in use calculation and to avoid opportunistic behavior of management.
- We generally support the proposal of the IASB to also allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use. However, we do not consider that the use of a post-tax discount rate will result in 'simplifying' the impairment test.

Section 5 – Intangible assets
- We are of the view that the current principles in IFRS 3 and IAS 38 on separately identifying and recognizing intangible assets from a business combination need to be improved as the current principles lead to complex considerations in practice to determine whether to recognize an acquired intangible asset or goodwill. Therefore, we welcome further investigation by the IASB broadly focused on the recognition of intangible assets in general and acquired intangible assets from a business combination in particular.

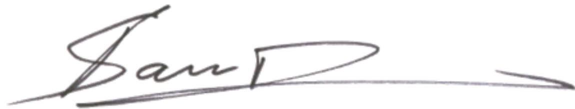
Section 6 – Other (comments)

- We are of the view that relevant assumptions used in determining the value in use should be disclosed by management in the financial statements.
- Finally, we recommend the IASB to further investigate the recognition and measurement of a deferred tax liability that arises as a result of the fair value adjustments of a business combination. The nature of the consequential change in the goodwill differs significantly from the other elements of the goodwill (such as synergies). Subsequently, the carrying amount of the deferred tax liability changes, based on the changes in the carrying amount of the related assets, while the goodwill remains unchanged. We are of the opinion that this results in an accounting mismatch.

Our detailed responses to the questions in the DP are provided in the appendix.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,



prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

Appendix – Responses to the questions of the DP

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 DASB supports the objective of the DP to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make in response to the PIR of IFRS 3. In our view, the proposals provided in the DP should strike a ***balance*** of proposals between the identified '*too little, too late*' issue with regard to the current impairment test of IAS 36, and the administrative burden for companies as a result of the proposals. Although this is presented by the IASB as a package of proposals and we do see for example interaction between the proposals with regard to the disclosures and the proposals with regard to (simplifying) the impairment test, we are of the view that the proposals do not necessarily need to be seen as combination.

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) (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) (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?

While there is no consensus whether all of the disclosure proposals will provide useful information to investors about the acquisitions, we generally support the proposals as included in sub (i) – (vi), however, we have two principal concerns;

1. We share the view of EFRAG that the information proposed should not only be based on information monitored by the CODM. This may result in investors not receiving material information on acquisitions and therefore is a risk to achieve the intended overall aim of the IASB to provide useful information about acquisitions. To reduce this risk, a more generic management approach without the focused CODM-level of monitoring, but instead focused on all the relevant information needed to assess the performance of the acquired business should be more appropriate.
2. Based on the nature of the proposed information, which contains both non-GAAP information and forward-looking information, we question whether the information as proposed should be part of the financial statements or instead should be included in the management commentary. If the IASB decides to disclose such information in the financial statements, this is a fundamental change compared to the current information requirements in IFRS.

As mentioned, we generally agree that the proposed information is useful and therefore we recommend the IASB to further explore whether this information should be part of the financial statements or management commentary and other aspects, like the commercial sensitivity of the proposed information.

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?

Although we generally agree that these proposals would be useful, we would like to emphasize that we have similar concerns with regard to these proposals as our concerns shared in response to question 2, point 2. Additionally, we would like to stress that any disclosure principles following these disclosure objectives need to be detailed enough to help preparers meeting these disclosure objectives and to avoid disclosing non-useful information in the financial statements.

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 share the view of the IASB that such proposals, containing metrics on expected costs and benefits from an acquisition, provide useful and relevant information about acquisitions. However, we are of the view that these metrics should not be required on a 'rule-based' manner as proposed by the IASB, as businesses can be acquired by management for several reasons, such as expected synergies, cost-reduction, increase of market share or product development/research and development purposes. Synergy is therefore not always the main objective for management to acquire businesses and therefore these proposals will not always be helpful to hold management accountable for the acquisition. We hold the view that any additional disclosures following the strategic rationale and objectives of an acquisition should also arise from a generic management-approach, in line with our response to the disclosure proposals in question 2 and 3 of the DP. Hence, any proposed disclosures of metrics on

expected costs and benefits from an acquisition should not only be focussed on synergies but must be broadened.

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?

Although we have our reservations about the inherent lack of comparability and reliability of the current pro forma information as required by IFRS 3, we generally support the view that the current requirements for companies to prepare the pro forma information should be retained. We do not favour replacing 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs'. The definition of 'operating profit or loss' could be aligned with the definition of operating profit or loss in the IASB's exposure draft ED/2019/7 *General Presentation and Disclosures*, however this still leads to incorporating new theoretical concepts into IFRS such as 'integration costs'. Due to its complexity and the inherent lack of reliability and comparability of the pro forma information we do not support the development of new concepts or guidance on how to prepare the pro forma information. To increase the comparability and understandability it might be considered by the IASB to prepare the pro forma information without the effects of the purchase price allocation and possibly without foregoing on the revaluation of assets and liabilities to current value.

Finally, like EFRAG, we do not support the proposal to provide similar pro-forma information for cash flows from operating activities of the acquired business after the acquisition date. We expect this leads to a significant increase of costs and are not convinced the proposals will result in useful information at reasonable cost for companies.

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?

The DASB agrees with the view of the IASB 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. However, like EFRAG, we are of the opinion that the effectiveness of the current impairment test of IAS 36 can be improved by amending the current principles for goodwill allocation to CGUs, such that goodwill is allocated to the appropriate level at which the acquired business is (integrated and) monitored.

We would like to mention that we believe it is important to better align the current impairment test requirements with the way acquisitions/businesses are being monitored in practice. In practice, companies are not monitoring 'goodwill' but instead companies do monitor (the results of) the 'business'. Due to the fact that the impairment test also focuses on the current and future performance of businesses, the IAS 36 principles (IAS 36.80 and further) that determine the (group of) CGUs to which the goodwill is allocated, should better align with the way in which management monitors the performance of the business and therefore might need to be adjusted.
Another important area for improvement of the effectiveness of the impairment test are the current principles with regard to (re)allocation of goodwill to CGUs. The current principles require a company to allocate goodwill to CGUs or groups of CGUs which shall not be larger than an operating segment. Due to the large size of these operating segments a shielding effect occurs. As outlined above, we believe the allocation of goodwill needs to be better aligned with the way the (acquired) business is monitored by management in practice. This could mean that a critical assessment of the determination of a (group of) CGUs is needed. This also questions whether the operating segment level as used in IAS 36 is still appropriate. We believe that the operating segment level causes in many cases the level of allocation of goodwill to be too high.

We consider management over-optimism and the shielding effect to be the main reasons that impairment losses on goodwill are not recognized on a timely basis. However, unlike EFRAG, we are of the view that addressing management over-optimism is a prominent part of an audit

and scrutiny by investors and therefore we do not favour changing IFRS to address management over-optimism.

Finally, we would like to stress that we think it is important that the allocation of goodwill must be reliably determined in such a way that it is also verifiable for auditors. We hold the view that the IASB should consider these aspects of IAS 36 to improve the effectiveness of the current impairment test.

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?

Many DASB members support reintroducing the amortisation of goodwill and therefore do not agree with the initial view of the IASB. Although we are aware of the inherent limitations on the concept of goodwill amortisation, our views on both the concept of amortisation and the impairment-only model did not substantially change since 2004. DASB members are of the opinion that the elements constituting goodwill paid at acquisition generally diminish in value over time. These DASB members believe this is also true where there is no loss in the overall value of the acquired business, based on the fact that external goodwill will be replaced by internally generated goodwill in due time. Although we are aware that determining the useful life of goodwill is judgmental and even might be challenging as well, in our view it should be possible to reasonably determine the useful life similar to other acquired identified assets (for example, intangible assets internally generated by the acquiree). As a consequence, goodwill could be amortised systematically over its useful life. Without the suggested improvements on the effectiveness of the impairment test as mentioned in response on question 6, we unanimously consider the impairment test insufficiently robust to measure any decline in the value of goodwill with a reasonable degree of reliability and objectivity.
As addressed by EFRAG, the outcome of recent academic studies have shown that one of the

most frequent items that companies remove from their profit or loss when illustrating the 'normal' or 'recurring' net result is the impairment loss on goodwill. Based on this outcome, we would expect this to be similar in case of amortisation of goodwill. However, when the 'underlying profit' (APM) is sufficiently explained and disclosed by the entity, we do not see this as a problem in providing useful information by the entity.

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?

The DASB does not support the IASB's proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. The 'total equity excluding goodwill' as shown in the Appendix to the DP could lead to undesirable (legal) consequences and in our view does not provide investors with useful information about the acquisitions, as indicated in the overall objective of the DP. Based on the proposals in ED/2019/7 *General Presentation and Disclosures*, goodwill will be already be presented separately on the face of the balance sheet. Therefore, in our view, there is no need to require companies to present any additional and undesirable subtotals with regard to goodwill.

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?

The DASB welcomes the IASB's effort to explore whether it could simplify the impairment test, only on condition that this is possible without making it significantly less effective and robust. We do not support the proposed indicator-only approach. In our view, an indicator-only approach is not a simplification of the current impairment test but a conditional relief for carrying out the annual required quantitative impairment test. We strongly believe that an indicator-only approach results in a further decrease of useful and reliable information on goodwill. Although we are aware of the benefits of an indicator-only approach, such as cost savings by reducing the frequency of the test, we only support the introduction of an indicator-only approach when combined with the annual amortisation of goodwill. We refer to the potential implications of an indicator-only approach as identified by EFRAG in its DCL (paragraphs 188-191), which we also consider as potential risks resulting from this proposal.

Instead of replacing the annual impairment test to an indicator-only approach, we recommend the IASB to explore whether paragraph IAS 36.99, which provides a conditional relief for the annual impairment test, could be made more suitable for use in practice without losing an appropriate threshold for application of this exemption. As also mentioned by the IASB in the DP, due to its strict conditions this exemption for testing goodwill annually is barely used in practice.

Question 10

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

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

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

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

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

The DASB conditionally supports the proposal to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use. Although we support the IASB's proposal to allow cash inflows and outflows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance to be incorporated in the cash flow projection for the determination of the value-in-use of the CGU, we are of the opinion that general principles are needed to ensure the reliability of the value in use calculation and to avoid opportunistic behavior of management. On the one hand to ensure that the scope of the cash flows is not only limited to cash flows from reorganizations and capital enhancements but that also other cash flows, like an investment cash flow that increases the production capacity for a group of assets, can be included. On the other hand, these general principles should contain a threshold that must be met before the cash flows are allowed to be included in the value in use calculation. For example, a requirement that these cash flows are explicitly and reliably estimated and internally authorized by management, in such a way that it is also verifiable for auditors.

We generally support the proposal of the IASB to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use. However, we have our reservations that allowing the use of a post-tax discount rate will result in 'simplifying' the impairment test. Moreover, we expect that allowing post-tax rates when determining the value in use will raise other questions, such as how to adjust the future cash flows for tax consequences or how to reflect deferred taxes in the carrying amount of the CGU. If the IASB decides to allow a post-tax cash flows and a post-tax discount rate, we recommend the IASB to add guidance to ensure that a post-tax calculation is consistent and comparable in practice.

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?

Except for the proposal included in paragraph 4.56(d) as outlined below, the DASB supports the IASB's preliminary view to not develop the other summarized simplifications (paragraph 4.56 sub a-c).

Regards the proposal in paragraph 4.56(d) we refer to our response on question 6. In our view, companies have too much flexibility to allocate goodwill to (groups of) CGUs. The current principles require a company to allocate goodwill to CGUs or groups of CGUs which shall not be larger than an operating segment as defined in IFRS 8. Due to the large size of operating segments a shielding effect occurs. From a holistic point of view, the allocation of goodwill needs to be better aligned with the way the (acquired) business is monitored by management in practice. This could mean that a critical assessment of the determination of a (group of) CGUs is needed. This also questions whether the operating segment level as used in IAS 36 is still appropriate. Finally, we would like to stress that we think it is important that the allocation of goodwill must be reliably determined in such a way that it is also verifiable for auditors. We hold the view that the IASB should consider these aspects of IAS 36 to improve the effectiveness of the current impairment test. Therefore, we recommend the IASB to further explore the proposal as included in paragraph 4.56(d) of the DP.

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?

The DASB has the view that due to the current principles in IFRS 3 and IAS 38 on separately identifying and recognizing intangible assets from a business combination, complex considerations are often needed in practice to determine whether to recognize acquisition related intangible assets or goodwill. For certain acquired assets, the distinction between goodwill and an acquisition related intangible asset is often conceptually not clear in practice. And when acquisition related intangible assets are recognised, the distinction in practice between these and those intangible assets that are capitalized as a result of capital expenditures is often quite difficult to assess.
As acquisition related intangibles are generally perceived as subjective by users as well, we question whether the benefits of identifying certain intangible assets from a business combination outweigh the costs and contribute to useful information. Therefore, we welcome further investigation by the IASB to explore whether this distinction can be made more clear in

IFRS, or to no longer differentiate in the recognition principles of intangible assets from a business combination compared to the normal recognition principles of intangible assets in IAS 38. We note that including this issue in the current project could result in the project taking considerably longer time to complete. We recommend the IASB to focus more broadly on intangible assets in general in a second phase of the project or together with a revision of IAS 38. We believe that additional principles to IAS 38 to present a subtotal of the acquisition related intangibles to distinguish the acquisition related intangible assets from intangible assets from capital expenditures contributes to useful information. We recommend the IASB to consider this proposal.

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?

The DASB is of the view that international convergence with FASB's work is important because it enhances comparability in general and in particular for the specific topics addressed in the DP. Any differences between IFRS and US GAAP in these specific topics could affect the level playing field for companies operating internationally.

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?

As mentioned in response to question 6 and 11 we strongly recommend the IASB to consider whether the current allocation principles in IAS 36 need improvement to increase the effectiveness of the impairment test. Therefore, we recommend the IASB to further explore the proposal as included in paragraph 4.56(d) of the DP.

In addition, we are of the view that relevant assumptions used in determining the value in use should be disclosed by management in the financial statements. In our opinion, this is useful information for investors. The information is already available internally and thus available at an acceptable cost.
Finally, we recommend the IASB to further investigate the recognition and measurement of a deferred tax liability that arises as a result of the fair value adjustments from a business combination.
The nature of the consequential change in the goodwill differs significantly from the other elements of the goodwill (such as synergies). After initial recognition, the carrying amount of the deferred tax liability changes, based on the changes in the carrying amount of the related assets, while the goodwill remains unchanged. We are of the opinion that this results in an accounting mismatch. We recommend the IASB to investigate this any further.