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Mr. Hans Hoogervorst
International Accounting Standards Board – IASB
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf

London E14 4HD
United Kingdom

Weinheim, 23/12/20

Dear Mr. Hoogervorst,

RE: DISCUSSION PAPER DP/2020/1

We appreciate the opportunity to comment on the IASB´s discussion paper "Business Combinations – Disclosures, Goodwill and Impairment" (DP/2020/1). With this letter, we would like to contribute to the Board's due process and take part in the discussion on the proposals in the above-mentioned paper.

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a huge number of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international financial reporting more visible and to act as a constructive partner for the standard setters. We work closely together with the German standard setter ASCG (Accounting Standards Committee of Germany) and the German Institute of Chartered Auditors (IDW – Institut der Wirtschaftsprüfer in Deutschland e.V.) as well as other political institutions.

Vereinigung zur Mitwirkung an der Entwicklung des Bilanzrechts für Familiengesellschaften e.V.
VMEBF e.V., c/o Freudenberg & Co. Kommanditgesellschaft, 69465 Weinheim, Germany

Board: Andreas Janssen (Chairman) · Tel.: (+49 6196) 204 750 · E-Mail: andreas.janssen@blauband.com
Dr Michael Reuter (Deputy Chairman) · Tel.: (+49 211) 3679 0646 · E-Mail: mail@michaelreuter.com
Santokh Advani · Tel.: (+49 40) 37004 7241 · E-Mail: santokh.advani@marquard-bahls.com
Axel Schade · Tel.: (+49 6181) 35 5113 · E-Mail: axel.schade@heraeus.com
Prof. Dr Dieter Truxius · Tel.: (+49 6051) 472 903 · E-Mail: dieter.truxius@accobis.com
Dr Thomas Ull · Tel.: (0421) 8980 4282 · E-Mail: thomas.ull@de.pwc.com

Bank account: Deutsche Bank AG, Mannheim · BIC: DEUTDESMXXX · IBAN: DE74 6707 0010 0040 1588 00

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Summing up our comments on the proposals set out in the discussion paper, we would state that there is still room for improvements when addressing the long-known and most pressing problems of the impairment test in the context of the impairment-only approach, most notably the question of too little and too late impairments of goodwill.

In particular, we believe that the Board should stop trying to fix the conceptual problems of the current impairment test by adding more and more disclosure requirements – especially as we consider some of the information to be provided according to the discussion paper as highly confidential and sensitive to competition. Disclosing especially the quantitative information proposed might on the one hand pose a competitive disadvantage to preparers of IFRS financial statements, especially as there are no comparable requirements in other reporting regimes, e.g. US GAAP. On the other hand, disclosing information on expected objectives that the entity does not achieve in later periods might lay the entity open to litigation in some jurisdictions.

Moreover, the current COVID 19 pandemic shows, that despite the economic downturn hardly an entity recognises considerable impairment losses. To us, this clearly highlights the massive shortcomings of the impairment-only model. In combination with our conceptual thoughts set out below, we believe that the IASB should seriously take into consideration a reintroduction of amortisation of goodwill.

Please refer to the appendix to this letter for our detailed answers to the questions asked in DP/2020/1. If you have any further questions, please do not hesitate to contact us.

Kind regards,

Association for Participation in the Development of
Accounting Regulations for Family-owned Entities (VMEBF)

Andreas Janssen

Santokh Advani

Dr Michael Reuter

Axel Schade

Prof. Dr Dieter Truxius

Dr Thomas Ull

Appendix:
VMEBF comments on the additional questions

<u>Question 1</u>

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?

We certainly support the general objective of the discussion paper to explore possibilities to provide users of financial statements with useful information about acquisitions made by a reporting entity at reasonable cost. Moreover, we support the efforts of the Board to improve the effectiveness of the impairment test.

However, in IN50-IN53 of the discussion paper the IASB describes that its preliminary views form a package and are interconnected. Additionally, the IASB asks that when stakeholders assess what best meets the project's objective, they should consider these links. From our point of view, this implies that if stakeholders would like to enjoy e.g. the benefits from the proposals to reduce cost and complexity in applying the goodwill impairment test, they would in return have to pay the price of providing the additional information as proposed in the discussion paper. In other words, the proposals provided in the discussion paper would have to be accepted or rejected as a whole.

We do not agree with this approach. We rather believe the IASB should discuss the cost and benefits of each individual proposal and decide on its implementation irrespective of the decisions made regarding the other proposals. Otherwise, the rejection of a problematic proposal like the additional disclosure requirements on the

(subsequent) performance of an acquisition might as a consequence lead to a likewise rejection of useful and beneficial proposals as part of the project as a whole.

<u>Question 2</u>

Paragraphs 2.4–2.44 discuss the Board's preliminary view that it should add new disclosure requirements about the subsequent performance of an acquisition.

a) Do you think those disclosure requirements would resolve the issue identified in paragraph 2.4—investors' need for better information on the subsequent performance of an acquisition? Why or why not?

b) Do you agree with the disclosure proposals set out in (i)–(vi) below? Why or why not?

(i) A company should be required to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date (see paragraphs 2.8–2.12). Paragraph 7 of IFRS 8 Operating Segments discusses the term 'chief operating decision maker'.

(ii) A company should be required to disclose information about whether it is meeting those objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives (see paragraphs 2.13–2.40), rather than on metrics prescribed by the Board.

(iii) If management (CODM) does not monitor an acquisition, the company should be required to disclose that fact and explain why it does not do so. The Board should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20).

(iv) A company should be required to disclose the information in (ii) for as long as its management (CODM) continues to monitor the acquisition to see whether it is meeting its objectives (see paragraphs 2.41–2.44).

(v) If management (CODM) stops monitoring whether those objectives are being met before the end of the second full year after the year of acquisition, the company should be required to disclose that fact and the reasons why it has done so (see paragraphs 2.41–2.44).

(vi) If management (CODM) changes the metrics it uses to monitor whether the objectives of the acquisition are being met, the company should be required to disclose the new metrics and the reasons for the change (see paragraph 2.21).

c) Do you agree that the information provided should be based on the information and the acquisitions a company's CODM reviews (see paragraphs

2.33–2.40)? Why or why not? Are you concerned that companies may not provide material information about acquisitions to investors if their disclosures are based on what the CODM reviews? Are you concerned that the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions the CODM reviews?

d) Could concerns about commercial sensitivity (see paragraphs 2.27–2.28) inhibit companies from disclosing information about management's (CODM's) objectives for an acquisition and about the metrics used to monitor whether those objectives are being met? Why or why not? Could commercial sensitivity be a valid reason for companies not to disclose some of that information when investors need it? Why or why not?

e) Paragraphs 2.29–2.32 explain the Board's view that the information setting out management's (CODM's) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information. Instead, the Board considers the information would reflect management's (CODM's) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company's ability to disclose this information? What are those constraints and what effect could they have?

Although we understand that the proposed disclosure requirements are aimed to result in useful information for investors, we are concerned that some of the information to be provided according to the discussion paper might be highly confidential and sensitive to competition. Disclosing quantitative information e.g. on the metrics used by an entity to monitor whether the objectives of an acquisition are being met or the achievement of objectives itself might pose a competitive disadvantage to preparers of IFRS financial statements, especially as there are no comparable requirements in other reporting regimes, e.g. US GAAP. Moreover, disclosing information on expected objectives that the entity does not achieve in later periods might lay the entity open to litigation in some jurisdictions.

With regard to the individual proposals, we believe that gathering information on the (subsequent) performance of an acquisition might not be as easy as stated in the discussion paper. Especially the integration of an acquired business and associated restructuring might complicate measurement of the acquisition's subsequent performance. This should also be true for the auditability of such information. As a consequence, the IASB should rather think about a principle-based approach focussing on the development of a coherent set of disclosure objectives instead of prescribing numerous specific disclosure requirements.

We agree with the general requirement to disclose acquisition-related information if and for as long as an acquisition is monitored by management to see whether it is meeting its objectives. Additionally, we generally agree with the requirement to explain why subsequent performance of an acquisition is not monitored by management and why management stopped monitoring subsequent performance of an ac-

quisition before the end of the second full year after the year of acquisition. However, due to the general reporting requirements entities might still feel constrained to disclose some metrics for the mentioned acquisitions to avoid disadvantages of any kind on the part of the users of its financial statements.

Taking a look at the proposed CODM approach, we are not sure whether (a) the level on which the information to be disclosed is monitored in the company and (b) the kind of metrics the disclosures are proposed to be based on are appropriate. First of all, in large and diversified groups the CODM (as defined in IFRS 8) usually only monitors the most important or some rather large acquisitions. According to the proposals in the discussion paper, no other acquisitions would have to be reported on in this scenario. We do not consider this to be appropriate, as there might be quite a number of acquisitions that are not monitored on a CODM-level in various group structures. Moreover, the discussion paper proposes to base the information to be provided on the metrics used by management to monitor the performance of an acquisition. As such information usually is based on management expectations and refers to non-GAAP measures, such kind of information should rather be disclosed in the management commentary instead of the financial statements.

Moreover, the IASB states that the disclosures discussed in the above-mentioned context are objectives or targets and not forward-looking information. We do not share this view. In the Practice Statement Management Commentary, forward-looking information is defined as “information about the future. It includes information about the future (e.g. information about prospects and plans) that may later be presented as historical information. It is subjective and its preparation requires the exercise of professional judgement.” As the estimates serving as a basis for the objectives or targets mentioned in the discussion paper regularly reflect the expectations of management on how the entity might perform and require the exercise of professional judgement, they have to be understood as forward-looking information. Especially in jurisdictions that do not provide “safe-harbour rules” with regard to forward-looking information, some of the disclosures discussed in the discussion paper might lay the reporting entity open to litigation.

Question 3

Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity’s main business activities.

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 agree with the IASB that it should develop disclosure objectives to provide more useful information to users of financial statements. As already pointed out in our answer to question 2, we would even encourage the Board to focus on a primarily principle-based approach and develop a coherent set of disclosure objectives instead of prescribing numerous specific disclosure requirements. Such disclosure objectives should also be accompanied by illustrative examples and additional guidance on how to apply those objectives. Furthermore, the level of detail of especially quantitative disclosures should – to a certain extent – be left to the professional judgement of the reporting entity and not be prescribed by the Board. Subsequently, the IASB could think about developing a confined number of specific (quantitative) disclosure requirements that should also not be sensitive to competition.

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 principally agree with the verbal disclosure requirements as proposed in par. 2.64 (a) and (b) of the discussion paper. However, some of that information might be highly confidential and sensitive to competition if reported in too much detail. Accordingly, the IASB should limit the level of detail of that kind of information to a level that is comparable to the data to be included in the acquisition-related documentations provided to the shareholders as a basis for the approval of the transaction. With regard to the disclosures proposed in par. 2.64 (c) and (d) of the discussion paper, we believe that disclosing quantitative information like estimated amounts of synergies or expected cost to achieve those synergies might pose a severe competitive disadvantage to preparers of IFRS financial statements, especially as there are no comparable requirements in other financial reporting regimes.

As separate information on liabilities arising from financing activities and defined benefit pension liabilities should readily be available in most reporting entities, we agree with the proposal to specify that the mentioned liabilities are major classes of liabilities.

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 principally agree that the IASB should retain to requirement to prepare the mentioned pro forma information showing 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. This is due to the fact that we believe that such pro forma information can be useful for users of financial statements. However, we also believe that the usefulness of such pro forma information is linked to the materiality of the transaction to be reported on. Having said that, we would suggest the Board to think about implementing some kind of materiality threshold and make the preparation of pro forma information conditional on that threshold. This also extends to the proposed requirement to disclose cashflows 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.

With regard to the comparability of pro forma information, we do not think that further guidance on how to prepare the pro forma information is required. In practice, there should be sufficient experience and practical examples to ensure appropriate preparation of pro forma information.

From our practical experience, the structure and format of pro forma information should – wherever possible – correspond with the structure and format of the data provided in an entity's financial statements. Accordingly, the replacement of the term "profit or loss" with the term "operating profit before acquisition-related transaction and integration costs" seems to be a logical consequence of the proposals made by the Board in the context of the primary financial statements project. However, the Board should not prejudice the results of that project by adapting terms from a project not yet finalised in the current discussion paper.

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?

We agree with the IASB that especially management over-optimism and shielding effects can be held responsible for the possible delay in recognising impairment losses on goodwill under current IAS 36. We also agree with the Board 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. This is especially due to the degree of professional judgement that is required when applying IAS 36. On the other hand, we do not believe that additional disclosures should be promoted as a universal cure for some of the shortcomings of the impairment test as set out in IAS 36. As a consequence, we believe that the IASB should retain the current logic of

the impairment test as a supplement to the reintroduction of straight-line goodwill amortisation.

With regard to par. 3.22 et seq. in the discussion paper, we do not think that the problems of the current impairment test are best addressed by auditors and regulators. From our point of view, the Board itself (as the international standardsetter) is responsible for developing practicable standards supplying users of financial statements with decision useful information.

Beyond the above-mentioned topics, we did not identify other aspects of IAS 36 the IASB should consider in this project as a result of concerns raised in the Post-implementation Review of IFRS 3.

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?

From our perspective, the Board should seriously take into consideration a reintroduction of amortisation of goodwill. The current COVID 19 pandemic shows, that despite the economic downturn hardly an entity recognises considerable impairment losses. To us, this clearly highlights the massive shortcomings of the impairment-only

model and reinforces our decision to plead in favour of the reintroduction of amortisation of goodwill (as we already did in the past).

From a conceptual point of view, we are convinced that an acquired goodwill is principally (a) consumed and (b) replaced by internally generated goodwill over time. For that reason, amortisation of goodwill could ensure that the consumption of acquired goodwill is shown in the income statement and would not distort the information provided by replacing acquired goodwill without affecting profit or loss. Additionally, performing the impairment test requires a huge amount of professional judgment (e.g. when determining cash-generating units or forecasting future cashflows) and generates information that is regularly only used for accounting purposes. To sum up, we believe that amortisation would provide a practical and inexpensive approach to subsequent accounting for goodwill as it could on the one hand defuse the main reasons for the concerns that impairment losses on goodwill are not recognised on a timely basis (namely management over-optimism and shielding effects) and on the other hand would diminish the need for a periodical impairment test and elaborate purchase price allocations to separate goodwill from other intangible assets as currently performed.

With regard to the discussion on the useful life of goodwill, we believe that most entities would be able to determine the useful life of goodwill on a reasonable basis. However, as determining the useful life will also require a certain degree of professional judgement, the Board should limit the useful life of goodwill to a maximum period of fifteen years (perhaps even formulated as a default value). With regard to the amortisation pattern, we would suggest straight-line amortisation. Both of those assumptions should also be designed as rebuttable. As a consequence, if an entity can substantiate that useful life of goodwill is shorter than fifteen years or another amortisation method would better reflect the pattern in which goodwill diminishes, it would be allowed to use those assumptions when amortising goodwill. Finally, in view of the overall discussion on subsequent accounting for goodwill the IASB should also think about contacting the FASB as to their project on “Identifiable Intangible Assets and Subsequent Accounting for Goodwill”. In the course of this project the FASB recently decided to explore adding amortisation to the goodwill impairment model, including the amortisation method and period.

Referring to the question, whether entities would adjust or create new management performance measures to add back the amortisation expense, we do not think that a large number of entities would considerably adjust their performance measures. If an entity already today adjusts its measures for impairment expenses, it is likely that the entity will also adjust those measures for amortisation expense under an accounting regime reintroducing amortisation of goodwill.

<u>Question 8</u>

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 do not agree with the proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. On the one hand, this subtotal can easily be determined from the information already provided in current financial statements (e.g. with recourse to the notes). On the other hand, we do not think that separate presentation of total equity excluding goodwill as a free-standing item on the face of the balance sheet would provide considerable additional value for the majority of the users of financial statements, but could raise unjust questions about the validity of goodwill accounting instead.

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 agree with the proposal to remove the requirement to perform a quantitative impairment test every year, provided that the IASB decides to reintroduce amortisation of goodwill. If the IASB decides to retain the impairment-only approach, we do not think that an approach to impairment testing solely based on an indication of impairment would result in sufficient analysis of the intrinsic value of the cash-generating units goodwill has been allocated to (although an indicator-based approach would result in considerable cost reduction).

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 fu-***

ture 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.

We agree that an entity should be allowed to include the above-mentioned cashflows in the estimation of value in use. From our point of view, those cashflows reflect the plans and estimates of the entity with regard to the future management of the asset. As a consequence, the use of internal budgets and forecasts would add value to the decision usefulness of the cashflow projections prepared by the entity. Moreover, we believe that the recourse to data that has already been generated for internal purposes would lead to further benefits from a process perspective.

We also agree with the proposal to allow companies to use post-tax cashflows and post-tax discount rates in estimating value in use, as pre-tax discount rates generally are not observable and therefore have to be derived from post-tax rates.

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 agree that the IASB should not develop proposals for any of the simplifications set out in par. 4.55 of the discussion paper, amongst others for the reasons illustrated in par. 4.56 of the paper. This assessment, in combination with the shortcomings of the current impairment test and the fact that we do not see any other possibilities to make the impairment test less complex and costly, leads us to the decision to plead in favour of the reintroduction of amortisation of goodwill.

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***
- ***c) Would your view change if amortisation of goodwill were to be reintroduced? Why or why not?***

If the Board decides to retain the impairment-only approach, we agree with the Board not to develop proposals to allow some specific intangible assets to be included in goodwill, not least because of (a) their information value in assessing how an entity might generate future cashflows and (b) the increasing importance of intangible assets in several industries. However, if the Board decides to reintroduce amortisation of goodwill it would be appropriate to think about simplifications regarding the separation of intangible assets from goodwill within the context of purchase price allocation. In that case, the Board could for example take the approach of only separating a limited number of clearly identifiable intangible assets, perhaps even in association with some extended materiality threshold.

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?

One of the objectives of the VMEBF association is to campaign for a level playing-field for European entities in respect of financial reporting requirements. We believe that especially the convergence of accounting standards is a main driver in creating such a level playing-field. Still today, many European companies have the impression that they have to provide more (sensitive) information about their acquisitions in the notes to the financial statements and management commentary than their competitors in e.g. a US GAAP environment. Thus, we would welcome the IASB and the FASB intensifying their efforts to develop more convergent financial reporting requirements and thereby helping to align general conditions for reporting entities worldwide.

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?

We do not have any further comments.