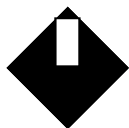

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International Accounting Standards Board
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Comments on the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* ("DP").

A structural deficiency is acknowledged in the impairment test for goodwill based on the current IAS 36, causing the issue of not being able to recognise impairment losses on goodwill on a timely basis (i.e. the 'too little, too late' issue). We believe this issue is not only causing an overstatement in the carrying amount of goodwill included in the financial statements but also significantly impacting the financial statements as a result of the impairment test for goodwill that heavily relies on the outcome of accounting estimates, which may harm the relevance of financial information. We have concerns about the issue poses an increased audit risk for the impairment testing on goodwill. That being said, we strongly suggest the IASB to address the issue in a resolute manner through this research project.

We do not believe the issue of timely recognition of impairment losses on goodwill can

be resolved solely by improving disclosures. This is because the issue is arising from a structural deficiency in the current impairment model under IAS 36, which allows goodwill of an acquired business to be shielded from impairment by the headroom of a business to which the acquired business is integrated. In other words, improving disclosures have little to do with the timely recognition of impairment losses on goodwill. Accordingly, we suggest tackling the issue by taking an approach of improving the subsequent accounting for goodwill.

At the same time, we understand the IASB has already explored ways to improve the current impairment test for goodwill in IAS 36 over the course of the research project only to conclude that it is not feasible to significantly improve the effectiveness of impairment testing. We believe that the fact that the IASB has concluded that it cannot improve the effectiveness of impairment testing is itself one of the new evidence for the discussion of improving the subsequent accounting for goodwill. It also suggests that there are no other realistic altenatives to address the issue other than reintroducing the amortisation of goodwill (i.e. the 'amortisation-and-impairment approach'). Although it would not directly resolve the structural deficiency in the impairment testing for goodwill, we believe the 'amortisation-and-impairment approach' is a practical and effective approach because it should at least be able to mitigate issues arising from not being able to recognise impairment losses on a timely basis.

Our view on the package of the IASB's preliminary views set out in the DP is outlined below for the key issues. Please see our comment to each question for the detail of our view.

- Improving disclosures about acquisitions (Question 2 to Question 5)
  The IASB should pursue the aim of improving disclosures regardless of whether or not it reintroduces amortisation of goodwill. Further, if amortisation of goodwill were to be reintroduced, part of the disclosures proposed by the IASB, including the timing of synergies expected to be realised (Question 4), would become a useful information in understanding the basis for management's inputs used to determine estimates, such as the useful life of goodwill.
- Impairment and amortisation of goodwill (Question 6 to Question 8)
  We agree with the IASB's preliminary view that it is not feasible to make the impairment test significantly more effective at recognising impairment losses on goodwill on a timely basis at a reasonable cost to companies. However, we strongly disagree with the IASB's preliminary view that it should not reintroduce amortisation

of goodwill. Although it would not directly resolve the structural deficiency in the impairment testing, we believe the reintroduction of amortisation of goodwill, i.e. the 'amortisation-and-impairment approach,' is a practical and effective approach because it should at least be able to mitigate issues arising from not being able to recognise impairment losses on a timely basis.

- Simplifying the impairment test (Question 9 to Question 11)
  Providing relief from a quantitative annual impairment test would make the impairment test even less robust, as it would provide less opportunities for impairment losses on goodwill to be recognised. Hence, the IASB should consider introducing the relief only when it decides to reintroduce the amortisation of goodwill.
- Intangible assets (Question 12)
  We support the IASB's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill. Our view will not change even if amortisation of goodwill were to be reintroduced.
- Convergence with US GAAP (Question 13)
  In order to pursue comparability of financial information on a global basis, we believe requirements should be consistent between public companies reporting under US GAAP and those reporting under IFRS for an approach applied to the subsequent accounting for goodwill (i.e. the impairment-only model or the amortisation-and-impairment approach). That being said, we continue to support the amortisation-and-impairment approach regardless of whether or not the IASB and the FASB adopt a consistent approach between IFRS and US GAAP after their current work.

Please find our comments to the questions raised in the ED, in the following pages.

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?

Comment:

As stated in paragraph 3.2 of the DP, there is a structural deficiency in the impairment test for goodwill based on the current IAS 36, failing to recognise impairment losses on goodwill on a timely basis. We believe this issue is not only causing an overstatement in the carrying amount of goodwill included in the financial statements but also significantly impacting the financial statements as a result of the impairment test for goodwill that heavily relies on the outcome of accounting estimates, which may harm the relevance of financial information. We have concerns about the issue poses an increased audit risk for the impairment testing on goodwill. That being said, we strongly suggest the IASB to address the issue in a resolute manner through this research project.

We do not believe the issue of timely recognition of impairment losses on goodwill can be resolved solely by improving disclosures. This is because the issue is arising from a structural deficiency in the current impairment model under IAS 36, which allows goodwill of an acquired business to be shielded from impairment by the headroom of a business to which the acquired business is integrated. In other words, improving disclosures have little to do with the timely recognition of impairment losses on goodwill.

Accordingly, we suggest tackling the issue by taking an approach of improving the subsequent accounting for goodwill.

At the same time, we understand the IASB has already explored ways to improve the current impairment test for goodwill in IAS 36 over the course of the research project only to conclude that it is not feasible to significantly improve the effectiveness of impairment testing. We believe the fact that the IASB concluded it cannot improve the effectiveness of impairment testing is itself one of the new evidence for the discussion of improving the subsequent accounting for goodwill. It also suggests that there are no other realistic altenatives to address the issue other than reintroducing the amortisation of goodwill (i.e. the 'amortisation-and-impairment approach'). Although it would not directly resolve the structural deficiency in the impairment testing for goodwill, we believe the 'amortisation-and-impairment approach' is a practical and effective approach because it should at least be able to mitigate issues arising from not being able to recognise impairment losses on a timely basis.

Our view on the package of the IASB's preliminary views set out in the DP is outlined below for the key issues. Please see our comments to each question for the detail of our view.

- Improving disclosures about acquisitions (Question 2 to Question 5)
  The IASB should pursue the aim of improving disclosures regardless of whether or not it reintroduces amortisation of goodwill. Further, if amortisation of goodwill were to be reintroduced, part of the disclosures proposed by the IASB, including the timing of synergies expected to be realised (Question 4), would become a useful information in understanding the basis for management's inputs used to determine estimates, such as the useful life of goodwill.
- Impairment and amortisation of goodwill (Question 6 to Question 8)
  We agree with the IASB's preliminary view that it is not feasible to make the impairment test significantly more effective at recognising impairment losses on goodwill on a timely basis at a reasonable cost to companies. However, we strongly disagree with the IASB's preliminary view that it should not reintroduce amortisation of goodwill. Although it would not directly resolve the structural deficiency in the impairment testing, we believe the 'amortisation-and-impairment approach' is a practical and effective approach because it should at least be able to mitigate issues arising from not being able to recognise impairment losses on a timely basis.
- Simplifying the impairment test (Question 9 to Question 11)

Providing relief from a quantitative annual impairment test would make the impairment test even less robust, as it would provide less opportunities for impairment losses on goodwill to be recognised. Hence, the IASB should consider introducing the relief only when it decides to reintroduce the amortisation of goodwill.

- Intangible assets (Question 12)
  We support the IASB's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill. Our view will not change even if amortisation of goodwill were to be reintroduced.
- Convergence with US GAAP (Question 13)
  In order to pursue comparability of financial information on a global basis, we believe requirements should be consistent between public companies reporting under US GAAP and those reporting under IFRS for an approach applied to the subsequent accounting for goodwill (i.e. the impairment-only model or the amortisation-and-impairment approach). That being said, we continue to support the amortisation-and-impairment approach regardless of whether or not the IASB and the FASB adopt a consistent approach between IFRS and US GAAP after their current work.

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) 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?

Comment:

(a) We agree with the IASB's view that there are needs of investors for better information

on the subsequent performance of an acquisition. In addition, we agree that the proposed disclosures in the DP can possibly provide information that meets the identified needs of investors.

However, as commented in Question 1 above, we do not think the current issue of timely recognition of impairment losses on goodwill will be resolved simply by improving disclosures.

(b) We basically agree with the IASB's proposal that a company should be required to disclose information about strategic rationale and management's objective for an acquisition as well as related metrics based on information monitored and measured by management (CODM) for the acquisition. We think such proposed disclosures should be able to provide investors with better information on the subsequent performance of the acquisition.

However, included in the proposed disclosure items is certain information that we think should be provided outside the financial statements, such as part of management commentary, instead of disclosing it as a note to the financial statements. For example, paragraph 2.16(d) of the DP indicates that metrics used by management (CODM) could be non-financial, including information on market share and retention of staff. It is uncertain as to whether such non-financial information meets the definition of 'Notes' set forth in IAS 1 and should be presented as such in the financial statements in accordance with paragraph 112 of IAS 1. We recommend the IASB should clarify items to be provided outside the financial statements, such as part of management commentary, before requiring companies to disclose information that should be included as notes to the financial statements.

(c) We agree that information provided should be based on the information and the acquisitions a company's CODM reviews. Although the usefulness of information provided under the management approach may be limited in some cases, we still think it is a practical approach as it enables to provide information that meets the needs of investors about the subsequent performance of an acquisition without imposing undue burden on preparers.

(d) We understand there are concerns about commercial sensitivity. Although it is unlikely such concerns could be a sufficient reason to exempt companies from disclosing information, we are concerned about the usefulness of that information because the information provided by preparers who may be hesitant to disclose

sensitive information tends to be more boilerplate-type descriptions.

(e) We are concerned whether it is appropriate to disclose information as notes to the financial statements about management's objectives for the acquisition and the metrics used to monitor progress in meeting those objectives. If such information were to be disclosed as part of notes to the financial statements, auditability would become another concern for us. We assume metrics used to monitor progress in meeting those objectives include information about thresholds used by management for the selected metrics in determining whether or not an acquisition is successful. For example, a threshold for management could be reaching the market share of 25% for Product Y by Year 202X, and when successful, the progress ratio would be 100%. Thresholds applied by management to measure success for acquisitions (i.e. 25% in this case), year-end progress levels indicating management's assessment on how successful the company is towards the targeted threshold to meet its objectives, and other information used by management for monitoring purposes could represent information that is not only unsuitable as notes to the financial statements, but also hard for auditors to audit the reasonableness.

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?

Comment:

Please see our comment to Question 2.

We agree that the IASB's proposal to add disclosure objectives may be able to provide information that meets the identified needs of investors. At the same time, we are concerned about the scope of items to be disclosed as notes to the financial statements as well as the auditability of such items if they were to be disclosed as notes to 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?

Comment:

We acknowledge that the proposed disclosures include items that could be used as a basis for determining the useful life of goodwill if amortisation were to be reintroduced for goodwill, such as disclosure information about when synergies are expected to be realised (please see our comment to Question 7 for detail). If the proposed disclosures were to be used for determining the useful life of goodwill, it should be disclosed in the notes to the financial statements as it would provide useful information as an assumption for accounting estimates.

We agree with the IASB's proposal to specify that liabilities arising from financing activities and defined benefit pension 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?

Comment:

Comments for Questions (a) to (c)

Although pro forma information is certainly useful for users, the issue of auditability has already been raised for certain information provided under the current disclosure requirements. Therefore, a careful consideration should be given on expanding the scope of disclosures to be made as notes to the financial statements.

The IASB proposes in the DP that the term 'profit or loss' in the pro forma information should be replaced with the term 'operating profit before acquisition-related transaction and integration costs' not only for the amount of profit or loss of the combined entity (paragraph 2.51(q)(ii)), but also for that of the acquiree since the acquisition date (paragraph 2.51(q)(i)). However, according to paragraph 53 of IFRS 3, acquisition-related transaction costs represent costs that the acquirer incurs, not the acquiree. Nonetheless, the DP's proposal sounds as if such costs were included in the operating profit of the acquiree's business. As it is creating confusion, we recommend the IASB should modify the proposal as appropriate.

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?

Comment:

(a) We agree with the IASB's conclusion.

(c) We agree with the two reasons why impairment losses on goodwill are not recognised on a timely basis, although the nature of the issue is completely different for each reason. The shielding issue is coming from a structural deficiency in the impairment test under IAS 36, which we do not think can be easily resolved. On the other hand, the issue of estimates of being too optimistic is coming from an application issue of IAS 36. Applying the impairment-only model has increased the carrying amount of goodwill, which increases the degree of uncertainty when making accounting estimates. We recognise that the increased uncertainty may have a great impact on whether the carrying amount of goodwill is faithfully represented.

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 amortization 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?

Comment:

Comments for Questions (a) to (d)

We are against the IASB's preliminary view that it should not reintroduce amortisation of goodwill due to the following reasons:

- Major components that make up goodwill, such as synergies and excess earning powers, are different by each business combination. Further, we understand the value of such major components recognised at the time of acquisition generally diminishes over a certain period after the acquisition. Therefore, we believe amortisation is the best way to depict the decline in value in the financial statements.
- Acquired goodwill is distinct from goodwill subsequently generated internally. If acquired goodwill is not amortised, it may lead to the recognition of internally generated goodwill incurred after the acquisition.
- As commented above, there is a structural deficiency in the impairment test for goodwill based on the current IAS 36, failing to recognise impairment losses on goodwill on a timely basis. Moreover, the IASB acknowledges it has tried to resolve the structural deficiency issue by improving the impairment test for goodwill at a reasonable cost, but failed to provide any specific proposals. This means that, according to the IASB's preliminary view in the DP, the issue of timely recognition of impairment losses on goodwill has not been resolved yet with regard to the subsequent accounting for goodwill.

- Impairment testing entails risks in estimating recoverable amounts, which are also recognised as high risk areas in audits. However, under the current impairment-only approach, the impairment test is the only way to recognise a reduction in value of an acquired goodwill in the financial statements. And because of the structural deficiency in the impairment test, that approach has increased the carrying amount of goodwill, which increases the degree of uncertainty when making accounting estimates and thus the outcome of accounting estimates may have a significant impact on the financial statements. In general, impairment tests have to rely more heavily on accounting estimates after a certain period subsequent to acquisitions because business environment changes over time, such as through integration of operations.
- We do not think the above-mentioned issues can be resolved solely by improving disclosures.
- Although it would not directly resolve the structural deficiency in the impairment testing for goodwill, we believe the reintroduction of amortisation of goodwill (i.e. the 'amortisation-and-impairment approach') is a practical and effective approach because it should at least be able to mitigate issues arising from not being able to recognise impairment losses on a timely basis.

Comments for Question (f)

If amortisation of goodwill is reintroduced, we recommend requirements for the amortisation period include the following:

- The useful life of goodwill should be determined based on management's reasonable estimate.
- Upper limit for the useful life of goodwill should be set forth in IFRS.
  We think major components that make up goodwill are different by each business combination. This means the period over which the value of goodwill diminishes are also different, depending on the nature of components consisting goodwill or how an acquirer plans to realise values included in goodwill, or maybe due to other reasons. Therefore, we suggest the useful life of goodwill should be determined individually based on management's judgement for each business combination, rather than specifying a fixed period for amortisation purposes.
- In determining the useful life of goodwill based on management's judgement, paragraph 2.63 of the DP discusses about expected synergies and introduces a comment from investors who insist that information on the timing of expected synergies is important. We believe determining the useful life of goodwill based on

a period over which synergies are expected to be realised would be consistent with the investors' perspective on the period over which the value of goodwill diminishes.

- In determining the upper limit for the useful life of goodwill, the IFRS for SMEs should be a good starting point, which stipulates that the useful life of goodwill shall not exceed 10 years. We do not think a useful life longer than 10 years is appropriate in most cases for the purpose of amortising goodwill, considering today's fast-paced economic environment.

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?

Comment:

We disagree with the proposal.

It is explicitly stated in IFRS 3 *Business Combinations* that goodwill represents an asset. Nonetheless, if the total equity excluding goodwill were to be presented on the balance sheets, arguing that goodwill is different from other assets, it may cast doubt on the nature of goodwill as an asset. Furthermore, the IASB's Exposure Draft *General Presentation and Disclosures* requires goodwill to be presented as a separate line item on the balance sheet. If the proposal were finalised, it would make it much easier for investors to calculate the amount of total equity excluding goodwill, if needed, by simply referring to the balance sheet information.

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?

Comment:

We disagree with the proposal.

We are concerned that impairment losses on goodwill are not recognised on a timely basis under the current impairment test model for goodwill based on IAS 36. Providing relief from the quantitative annual impairment test could cause further delay in recognising impairment losses on goodwill, making the impairment test even less robust. Accordingly, we recommend the IASB consider the proposal only when reintroducing amortisation of goodwill.

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.

Comment:

We disagree with the proposal to remove the restriction in IAS 36 in estimating value in use. Removing the restriction could increase the risk of management being too optimistic when making assumptions because the removal may provide further opportunity for management to use judgement in determining value in use. Thus, we

believe the proposal to remove the restriction would only work against the issue of not being able to recognise impairment losses on goodwill on a timely basis under the current impairment test model for goodwill based on IAS 36, which we already discussed at Question 9.

We agree with the proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use because it enhances the alignment with common valuation 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?

Comment:

We agree with the preliminary view that the IASB should not further simplify the impairment test.

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?

Comment:

We agree with the preliminary view that the IASB should not develop a proposal to allow some intangible assets to be included in goodwill. Our view would not change even

if amortisation of goodwill were to be introduced.

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?

Comment:

In order to pursue comparability of financial information on a global basis, we believe requirements should be consistent between public companies reporting under US GAAP and those reporting under IFRS for an approach applied to the subsequent accounting for goodwill (i.e. the impairment-only model or the amortisation-and-impairment approach).

That being said, we continue to support the amortisation-and-impairment approach regardless of whether or not the IASB and the FASB adopt a consistent approach between IFRS and US GAAP after their current work.

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?

Comment:

- If amortisation of goodwill were to be reintroduced, we believe goodwill that constitute part of equity method investments should also be subject to amortisation.

  According to IAS 28 *Investments in Associates and Joint Ventures*, goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not separately recognised. Instead, the entire carrying amount of the investment, including goodwill, is recognised as a single asset. That said, from the perspective of aligning the accounting treatment for goodwill under the consolidation accounting and the equity method accounting, we recommend that goodwill of an investment in an associate or joint venture should be separately recognised from other assets and

amortised annually. Further, any impairment loss incurred for the entire carrying amount of the investment should be allocated first to the goodwill.

- We think there is room for some improvements regarding the impairment testing model for goodwill under IAS 36. For example, reconsidering the unit of testing as followed may lead to recognising impairment losses on goodwill on a more timely basis:
  - In accordance with IAS 36, goodwill is allocated to each of the acquirer's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the business combination. Further, IAS 36 requires that such unit or group of units shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and shall not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* before aggregation. However, in practice, the level of unit at which goodwill is monitored for internal management purposes is in many cases represented by an operating segment. In such cases, entities may have not successfully identified the lowest level of unit for goodwill allocation purposes under the IAS 36, causing a delay in the recognition of impairment losses on goodwill. In order to lower the level of unit to which goodwill is allocated, we may suggest adding the following conditions to the requirement to clarify the relationship between benefits expected from synergies of the business combination and cash-generating units (or groups of cash-generating units):
    - ・synergy benefits from a business combination should be identified for each of the acquirer's cash-generating units at the time of acquisition; and
    - ・the unit should represent the lowest level at which a specific factor that generates synergies is identified at the time of the business combination.

    We believe such conditions can be added to improve disclosures on goodwill, thereby restricting entities to simply referring to operating segments as for their cash-generating units (or groups of cash-generating units) without much consideration. Further, more detailed information can be provided to users regarding the allocation of goodwill to cash-generating units (or groups of cash-generating units) and the nature of synergies.

Yours faithfully,

Takako Fujimoto
Executive Board Member ― Business Accounting Standards and Practice/Corporate

Disclosure
The Japanese Institute of Certified Public Accountants