Australian Government

Australian Accounting Standards Board

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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
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UNITED KINGDOM

11 December 2020.

Dear Hans,

IASB DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* – AASB comments

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* issued in March 2020 (DP/2020/1).

In formulating these comments, the views of our Australian stakeholders were sought and considered. This included:

- consultation with the AASB's User Advisory Committee, comprising a range of primary users of financial statements;
- two webinars seeking feedback on the proposals, with participation from over 110 stakeholders. We would like to express particular thanks to IASB Board Member Ann Tarca and IASB Technical Staff Tim Craig for their participation in the webinars, which we consider was of significant mutual benefit to both the AASB and the IASB;
- consultation with the AASB's Business Combinations/Equity Method Project Advisory Panel, which comprises subject matter experts across a range of stakeholder groups;
- two formal comment letters; and
- other targeted consultation with key stakeholders, such as professional bodies, auditors and preparers in Australia.

The AASB acknowledges the efforts of the IASB and agrees with some aspects of the proposals in DP/2020/1. However, AASB members have mixed views on whether to retain the impairment-only approach to accounting for goodwill. Some preparers and auditors prefer the amortisation of goodwill to reduce costs and remove some of the judgement associated with the impairment test. Users, on the other hand generally favour the impairment-only model as it provides better information about the success of an entity’s acquisitions and avoids arbitrary amortisation charges.

The AASB's specific concerns and recommendations in relation to the proposals are detailed in Appendix A. They relate in particular to the following:

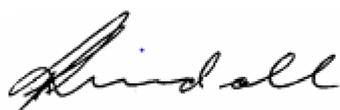
- AASB members noted that some of the concerns about the shortcomings of the current impairment test are the result of application issues which could be addressed by providing additional implementation guidance. In particular, we suggest:
  - developing a template or illustrative examples to assist entities in understanding and applying the principles of the value-in-use (ViU) model in IAS 36 *Impairment of Assets;* and
  - explaining how to identify the lowest level at which goodwill is being monitored, to ensure it is tested for impairment at the appropriate level.

  This guidance should be provided in any case, as goodwill will need to be tested for impairment regardless of whether it is amortised or not.
- The AASB does not support requiring entities to disclose information about the subsequent performance of acquisitions, including the metrics used by the chief operating decision maker (CODM) to monitor those acquisitions in the financial statements. While noting that the disclosures are responding to a need for further information expressed by investors, we question whether this type of information would be required to meet the objective of financial statements as proposed in the IASB's Exposure Draft *General Presentation and Disclosures* or whether this would be better dealt with in the IASB's project to revise the Management Commentary Practice Statement. We also note that no similar information is required for internally developed intangible assets.
- The AASB does not support removing the annual quantitative impairment test requirement given concerns from stakeholders about the loss of information in the financial statements and limited evidence of cost savings.
- The AASB does not support the proposed requirement to present total equity, excluding goodwill, on the statement of financial position.

The AASB has responded only to those questions in the discussion paper where the Board has concerns about the proposals or recommendations for improvements.

If you have any questions regarding this letter, please contact me or Meina Rose, Technical Principal (mrose@aasb.gov.au).

Yours sincerely,



Dr. Keith Kendall

AASB Chair

APPENDIX A – Responses to questions raised in DP/2020/1

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 AASB does not consider that implementing the package would meet the project's objective to provide investors with more useful information about the acquisitions that companies make at a reasonable cost.

In particular, we do not support the requirement to disclose information about the subsequent performance of acquisitions, including the metrics used by the chief operating decision maker (CODM) to monitor those acquisitions, in the financial statements, but recommend considering whether this information could be more appropriately dealt with in the IASB's project to revise the Management Commentary Practice Statement. Refer to our response to question 2 for further discussion.

AASB members have mixed views on whether to retain the impairment-only approach to accounting for goodwill. Some preparers and auditors prefer the amortisation of goodwill to reduce costs and remove some of the judgement associated with the impairment test. Users, on the other hand, generally favour the impairment-only approach as this provides better information about the success of an entity's acquisitions and avoids arbitrary amortisation charges. Refer to our response to question 7 for further discussion.

Further, we do not support the IASB's proposal to remove the annual quantitative impairment test requirement, given users' concerns about the loss of information in financial statements and limited cost savings. Refer to our response to question 7 for further discussion.

However, the AASB does support the following proposals:

- retaining the existing pro-forma revenue and profit contribution disclosures, but not the introduction of new pro-forma cash-flow disclosures. Refer to our response to question 5 for further discussion;
- removing the restriction on including uncommitted cash flows from future restructurings, improvements or asset enhancements in the value in use (ViU) test, subject to developing robust guidance about when it is appropriate for an entity to include those cash flows. Refer to our response to question 10 for further discussion; and

- allowing the use of either pre- or post-tax cash flows and discount rates in estimating ViU subject to providing implementation guidance about the use of post-tax discount rates in ViU calculations. Refer to our response to question 10 for further discussion.

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). (v) 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?

Question 2(a)

The AASB received mixed feedback on the usefulness of the proposed disclosures and therefore does not consider that the proposed disclosure requirements would resolve the issue identified in paragraph 2.4 of the Discussion Paper. Some users noted that they already receive sufficient information about the subsequent performance of acquisitions outside the financial statements, for example, in investor presentations and market announcements. Other users indicated concerns about management's ability to manipulate which metrics are disclosed in the financial statements and the ability to change the metrics from period-to-period to potentially mask poor performance. For this reason, users indicated they would be sceptical about the reliability of the proposed disclosures.

Question 2(b)

The AASB does not support the requirement to disclose information about the subsequent performance of acquisitions, including the metrics used by the CODM to monitor these acquisitions in the financial statements. We note that the objective of the financial statements as proposed in the IASB's Exposure Draft ED/2019/7 *General Presentation and Disclosures* is to help ensure that the financial statements provide "relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses". The AASB questions whether the proposed subsequent performance disclosures are required to meet this objective, or whether this information is better addressed by the IASB's project to revise the Management Commentary Practice Statement, seeing that the aim of the management commentary is to provide primary users of financial reports with information that is useful in assessing the management's stewardship of the entity's economic resources.

We further note that no similar information is required for internally developed intangible assets, even though users would have a similar interest in the success, or not, of such projects.

While we **do not** support the proposals, if the IASB proceeds with the disclosure proposals, we make the following observations:

- While we agree that the CODM approach is a pragmatic solution, stakeholders have raised concerns that this may result in financial reporting standards driving internal management reporting, as was the case when IFRS 8 *Operating Segments* was issued.
- There was further significant concern about management bias, including management's ability to change the metrics they disclose from period-to-period. While being required to disclose the reasons why the disclosed metrics were changed in the financial statements may mitigate this concern, we also suggest explaining in which situations it might be reasonable for the CODM to change the metrics used. Such situations could be, for example, when an entity has undergone a major restructure, or when a metric is related to earnings due to an earnout agreement, at the point the earnout target is either met or missed. This guidance would limit the potential for the CODM to change metrics to mask poor performance.
- Some stakeholders expressed concerns regarding the auditability of the proposed disclosures. We suggest that this is discussed with the International Auditing and Assurance Standards Board (IAASB) to ensure the disclosure requirements are sufficiently specific and detailed and auditable.
- While management may have good reasons to change metrics over time, users indicated that the loss of period-to-period consistency of information would be a concern. If this concern is also raised in other submissions, we suggest the IASB considers whether an approach similar to the approach in paragraphs 29 and 30 of IFRS 8 may be warranted. This

would involve either restating comparative information or disclosing information on both the old and the new basis in the year in which the metrics have been changed.

- Another common concern of a broad range of stakeholders was that it might be difficult to track an acquiree's performance where the acquiree is integrated soon after acquisition. While we note that the Discussion Paper proposes permitting entities to report the CODM metrics on an integrated basis where this occurs, this was not clear to stakeholders. We recommend emphasising this aspect of the proposals in any future consultations and outreach events.

Question 2(c)

While the AASB **does not** support the disclosure proposals, if the IASB proceeds, we agree that the CODM approach is a pragmatic solution and that it should not be too onerous to make the disclosures as they are based on information management should already have.

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: o a description of the synergies expected from combining the operations of the o acquired business with the company's business; o when the synergies are expected to be realised; o the estimated amount or range of amounts of the synergies; and o 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?

The AASB agrees with the IASB's preliminary view to require companies to disclose more comprehensive information about the synergies expected to be realised from an acquisition.

Some stakeholders did, however, express concern about the auditability of the proposed synergy disclosures. Concerns were also expressed that quantifying expected synergies may be difficult and very judgemental and that it may be difficult for auditors to assess whether management's expectations are reasonable.

Our understanding is that auditing these disclosures should be possible provided the framework against which the disclosures are to be audited is sufficiently specific and detailed. However, we suggest that the IASB discuss the auditability of the proposed disclosures with the IAASB to ensure that this is the case.

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?

Question 5(a) and (b)

The AASB is supportive of the IASB's preliminary view to retain the current requirements for companies to prepare and disclose pro-forma information.

Users find the disclosure of pro-forma revenue particularly useful, but some noted that disclosure of pro-forma profit contribution may not always be useful as it can be arbitrary and judgemental. For example, estimating the expenses of the combined business for the period prior to acquisition could be judgemental if it involves estimating cost savings that may be realised through acquisition synergies.

On balance, however, while the pro-forma information currently required by IFRS 3 may be considered to be flawed and incomplete, our view is that it provides a useful baseline for users to judge the future performance of an acquisition and it should therefore be retained.

Guidance about how to prepare the pro-forma information would help improve the quality and consistency of the disclosures and address stakeholders' concerns about possible manipulation. Requiring entities to disclose how the profit and revenue contribution disclosures were calculated may further increase transparency and decrease the scope for manipulation.

Question 5(c)

The AASB **does not** support the pro-forma cash flow disclosure proposals.

Feedback from users indicates the pro-forma cash flow information is not likely to be useful as it is quite arbitrary, judgemental and easily manipulated. For example, stakeholder feedback indicated that management may be able to use acquisition adjustments for working capital to reallocate cash flows between operating and investing cash flows when determining the acquiree’s cash flow contribution for the period from the date of acquisition (e.g., acquiring a business with high receivables and low payables, which therefore increases cash flows from operations. However, this is paid for through investing cash flows as part of the acquisition deal). This information would, therefore, be considered with scepticism.

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?

Question 6(c)

Feedback obtained from outreach activities echoed the PIR feedback that the market typically recognises impairment losses before they are recognised in financial statements. However, this is because financial statements are only lodged periodically whereas market announcements are made more frequently and would alert users to potential impairments before the financial statements are issued.

Our main concern with the current impairment model is that goodwill is not always tested at the appropriate level which increases the shielding effect. This is because goodwill is potentially allocated to larger CGUs/groups of CGUs than would be required if the principles in IAS 36 were appropriately applied.

We recommend the IASB considers explaining what is meant by the reference to 'the lowest level within the entity at which goodwill is monitored for internal management purposes' and in particular confirming that this does not refer to monitoring by the CODM, but could be at a lower level.

As this does not involve changes to the application of the impairment test as such, we consider that this could be addressed as part of this project, or via a separate short-term improvements project.

Question 6(d)

In addition to the concern about the allocation of goodwill to CGUs identified in our response to question 6(c), the AASB also noted difficulties in understanding and applying the ViU model in IAS 36, including determining when to in-or exclude cash flows and the related assets and liabilities for items such as lease liabilities and asset retirement obligations.

To address this, we suggest the IASB develop a template or illustrative examples to assist entities in understanding and applying the principles of the ViU model in IAS 36.

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?

Question 7(a)

AASB members have mixed views on whether to retain the impairment-only approach to accounting for goodwill. Feedback from stakeholders was also mixed.

While no new arguments were put forward, we noted that, some preparers and auditors prefer the amortisation of goodwill to reduce costs and remove some of the judgement associated with the impairment test. Some stakeholders were of the view that the economic benefits of an acquisition are usually expected to be finite, i.e. that goodwill is a wasting asset. Amortisation would provide users with additional information about the timeframe of the expected realisation of the benefits of the acquisition and reduce the effect of shielding.

Feedback from preparers also noted that it can be costly and practically challenging to verify impairment assumptions for goodwill that has been acquired many years ago, in particular if the business model/strategy has changed during this period.

Users, on the other hand, generally favoured the impairment-only approach as this provides better information about the success of an entity's acquisitions. In their view, even if impairment losses are only confirmatory because the market has already recognised the loss before it is reported in the periodic financial statements, impairments still provide useful information, particularly in the first few periods after an acquisition when the outcomes of the acquisition (i.e., its success or failure) are most interesting to users.

Proponents of the impairment-only model disagreed that goodwill is a wasting asset and noted the difficulties in reliably estimating the useful life of goodwill and how it is consumed, which will result in arbitrary amortisation charges over arbitrary periods of time. This is unlikely to provide useful information to users.

However, as an impairment test would be required under both the impairment-only and amortisation approaches to accounting for goodwill, we recommend that the IASB considers the improvements proposed in our response to questions 6(c) and 6(d) regardless of whether the IASB reintroduces amortisation or retains the impairment-only model.

Question 7(e)

Feedback from users suggests that they would add back amortisation in the same way as they add back impairment losses, as both are non-cash items. We would therefore expect management to do the same when reporting to investors.

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?

Question 8(a)

The AASB does not support the proposal to require entities to present total equity excluding goodwill on the balance sheet.

We acknowledge that this proposal was intended to provide greater transparency about goodwill, in particular in situations where goodwill makes up a significant proportion of an entity's equity balance. However, in our view, presenting total equity excluding goodwill on the balance sheet would be inconsistent with the IASB’s conclusion in IFRS 3 that goodwill is an asset that will generate future economic benefits to the entity.

As goodwill must be separately disclosed, calculating total equity excluding goodwill should be straightforward for financial statement users.

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 AASB's comments are limited to removing the annual impairment test requirements for goodwill. We did not receive any specific feedback on the proposals as they may apply to intangible assets with indefinite useful lives and intangible assets not yet available for use.

The AASB **does not** support the removal of the annual impairment test. There does not appear to be any evidence of significant cost savings and there is significant concern from users about the loss of information from the financial statements, as noted below.

Large preparers have indicated that they would continue to perform an annual impairment test regardless of a requirement to do so, as they have well designed systems and processes in place to perform the annual testing. Entities in the SME space would be more likely to take advantage of this relief as annual impairment testing is costly and time consuming. However, auditors have noted that they would likely need additional audit evidence to confirm that the goodwill is not materially misstated, which could offset the cost savings from the removal of the annual test.

Further, under an indicator approach, entities would still need to spend time assessing and documenting whether impairment indicators are present and would need to spend time regaining skills and expertise should an impairment test be required in a subsequent period. For this reason, stakeholders thought that any potential cost savings may not be as great as expected. An indicator approach may also result in indicators being missed and impairment losses not being recognised when they should be. Finally, users expressed concerns about the loss of the disclosures of the key assumptions made in performing the annual impairment test.

However, if the IASB disagrees and proceeds with removing the annual quantitative impairment test requirement, we suggest that the indicator approach be made more robust and supplemented with additional disclosures. In particular, entities should be required to disclose if they have not performed an impairment test (as there were no impairment indicators) and explain the reasons why no test was needed. This should include disclosing the indicators considered in the assessment.

We further suggest the IASB reconsiders the list of impairment indicators and provides a non-exhaustive list of additional, more specific indicators that have a stronger focus on internal factors that are particularly relevant to goodwill and intangible assets with an indefinite life. Examples of such indicators could be the loss of a major customer or group of customers, loss of market share, loss of key employees that were critical for the brand development or development of technological platforms, or the failure to meet internal metrics determined at the time of the acquisition, including expected synergies to arise from the acquisition.

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.

Removing restrictions for some cash flows

While there were some mixed views, the AASB generally agrees with the IASB's proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring or from improving or enhancing the asset's performance in estimating ViU.

However, the Board was concerned that this could further delay recognising impairment losses due to overly optimistic cash flow forecasts. For example, entities may include cash flows from restructuring activities that may never occur or may be continuously delayed in ViU calculations.

Assessing whether cash flows from future restructurings or asset enhancements are reasonable and supportable could be difficult and judgemental. It may not be possible, for example, to compare

those expected future cash flows to past cash flow projections the same way it is done for other types of cash flows in ViU calculations and required by paragraph 34 of IAS 36.

To ensure the impairment test remains robust, the AASB suggests that the IASB develops guidance which clarifies when it would be reasonable and supportable to include cash flows from uncommitted future restructuring and asset enhancements. For example, the guidance could specify that the entity needs to be able to demonstrate both its intent and financial ability to implement the restructuring and has developed a reasonably detailed plan.

Pre- or post-tax discount rates

The AASB supports the use of either pre- or post-tax discount rates, however, we recommend providing guidance to explain how this will affect the ViU model. While conceptually, discounting post-tax cash flows at a post-tax discount rate and discounting pre-tax cash flows at a pre-tax discount rate should provide the same result, in practice, this will only be the case if there are no temporary differences.

If the entity uses a post-tax discount rate and post-tax cash flows, it will need to consider the reversal of temporary differences and the timing thereof. We suggest the guidance should explain that:

- if an entity intends to use post-tax discount rates, it will need to ensure the relevant cash flows are also determined on a post-tax basis and reflect the actual post-tax cash flows expected to be received from the assets;
- estimating the post-tax cash flows may require detailed scheduling of the reversal of existing temporary differences; and
- if an entity uses a post-tax discount rate and post-tax cash flows in calculating ViU, the resulting recoverable amount must be compared to the CGU, including any relevant deferred tax balances to assess whether there is an impairment.

Is there a need for two models?

Feedback from stakeholders generally supported retaining two different models for the reasons set out in paragraphs 4.55(b) and 4.56(b) of the Discussion Paper (e.g., if an entity can generate greater cash flows by using an asset, determining the recoverable amount based on fair value less costs of disposal (FVLCD) would be misleading and vice versa). Having two models can also be useful in situations such as the current COVID-19 pandemic where FVLCD can be volatile but may in certain circumstances be higher than ViU and therefore avoid the recognition of an impairment loss even if a sale is not intended.

However, some stakeholders noted that simplifying the ViU calculation will blur the distinction between the ViU and FVLCD model and questioned whether there could be merit in moving to one model. These stakeholders noted that having only one model may remove some of the judgement involved in impairment testing and address concerns about over-optimism in ViU calculations, by having a stronger and clearer focus on external evidence in setting assumptions.

We therefore suggest the IASB undertake further research and discusses with valuation professionals whether the recommendation in AASB Research Report No 9 *Perspectives on IAS 36: A case for Standard-Setting* to develop a modified single model approach and reserve the use of a FVLCD type model for assets expected to be disposed of may have merits.

However, we acknowledge that this may be better addressed through a holistic review of the IAS 36 requirements rather than through this project.

If the two separate models are retained, we recommend the IASB clearly explains the differences between the two models, acknowledging an increasing focus by regulators on the use of market-based evidence in setting the assumptions for the ViU model.

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?

Allowing reversal of goodwill impairment

The AASB notes that the IASB staff have been seeking feedback on whether allowing companies to reverse previously recognised impairment losses could encourage entities to recognise impairment losses earlier and thereby address concerns that impairment losses are recognised 'too little too late'.

We **do not** support this proposition.

While there may be a view that entities are recognising impairment losses too late because they cannot reverse them in a subsequent period if circumstances improve, limited feedback obtained from stakeholders does not support this view. Users did not believe that the ability to reverse impairment losses would result in more timely recognition. Similarly, preparers indicated that the ability to reverse a previously recognised impairment loss would not affect when they recognise impairment losses.

While we acknowledge that prohibiting the reversal of goodwill impairment losses is inconsistent with other assets, we expect it would be difficult to determine the extent to which the reversal is attributable to the recovery of the acquired goodwill rather than the recognition of internally generated goodwill as noted in paragraph BC 189 of the Basis for Conclusions to IAS 36.