



## Australian Government

### Department of Finance

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Dr Keith Kendall  
The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Dr Kendall

### **ED 329 – Business Combinations—Disclosures, Goodwill and Impairment**

The Department of Finance (Finance) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the technical aspects of the International Accounting Standards Board Exposure Draft: *Business Combinations—Disclosures, Goodwill and Impairment*.

Finance welcomes the efforts of the International Accounting Standards Board to improve technical requirements for goodwill and impairment. Further, we support appropriate improved disclosures about goodwill arising from business combinations in the for-profit sector.

We do have some comments on the exposure draft.

#### *Disclosures - General*

Our view of the additional disclosures about goodwill is that they are unlikely to apply, or will have limited relevance to, the public sector:

- Most business combinations in the public sector are mergers of entities that are all already controlled by government. They are not always carried out for the purpose of cost savings (“synergies”) or improved market position, but may also be for other purposes;
  - For this reason goodwill on a business combination if it occurs is usually written off immediately;

- The principal purpose of the proposed disclosures is to provide information in general purpose financial statements to equity investors. Such investors typically don't exist for the public sector, even for for-profit entities; and
- There could be difficulty in determining a "strategic combination" in the public sector.

We also share the acknowledged concern of preparers that the disclosure requirements could be sensitive in some cases.

### *Disclosures – performance*

The disclosures are potentially too detailed for most users. Further, disclosures are rules-based, contrary to the principles-based foundation of accounting standards. Quantitative thresholds will become out of date unless regularly maintained.

We assume that appropriate liaison has taken place with auditing standard-setters about the forward-looking nature of some of the disclosures.

We are also concerned that the disclosures about the contribution of the investee to group earnings could be manipulated through inter-company charges.

### *Impairment*

We cautiously support the changes to impairment, including value in use.

The disclosures by themselves are unlikely to prevent overoptimism in investor/investee relationships. However, they are likely to make it more transparent.

We recommend that the IASB monitor the reporting and disclosure outcomes of the impairment changes, to verify that they achieve the desired objectives.

### *Transition*

We agree that prospective application is appropriate.

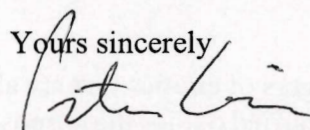
### *AASB Matters for comment*

Several comments about auditability and usefulness are mentioned above.

We are not aware of any regulatory issues with the proposals, noting again the limited relevance to the public sector in Australia. We provide no view on the economic benefits.

If you have any queries regarding these comments, please contact me on (02) 6215 3551.

Yours sincerely



Peter Gibson

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