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EFRAG
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Our ref: RJ-EFRAG 600 B
Date: Amsterdam, 7 december 2020
Re: Comments on DP/2020/1 'Business Combinations – Disclosures, Goodwill and Impairment

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on your draft comment letter dated 29 May 2020 in response to the Discussion Paper DP/2020/1 'Business Combinations – Disclosures, Goodwill and Impairment' (DP).

We generally agree with EFRAG's response to the DP, except as set out below (in the same order as the ED):

- Unlike EFRAG's view, as currently expressed in response to question 5, we do not favour the proposals for replacing 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs'.
- In response to EFRAG's questions to address management over-optimism, we are of the view that addressing management over-optimism is a prominent part of an audit and therefore we do not favour changing IFRS to address management over-optimism.
- Many DASB members support reintroducing the amortisation of goodwill and therefore do not agree with the initial view of the IASB.
- We do not support EFRAG's suggestion to include a discussion on separating goodwill into components, neither do we support considering a reversal of goodwill impairments in general or when recognized in an interim period.

Our further feedback, including some additional comments raised in our comment letter to the IASB, is provided in the appendix.

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

Yours sincerely,

prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

Appendix – Views on EFRAG Draft Comment Letter

Section 1 Introduction - DP Question 1

The DASB agrees with EFRAG's response to question 1 of the DP.

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

Section 2 Improving disclosures about acquisitions - DP Question 2

The DASB agrees with EFRAG's response to question 2 of the DP.

EFRAG – Questions to constituents

54 As stated above, EFRAG considers that the disclosures proposed in the DP could provide useful information. EFRAG has, however, not yet formed a view on whether the financial statements are the right place to disclose information about the performance of an acquired business compared with management expectations. Among other things, it might be difficult to audit the information if Standards do not provide guidance on how the non-GAAP metrics should be determined.

(a) Do you agree with the IASB's proposal to include the proposed information in the notes to the financial statements? Why/why not? If you disagree with the IASB, do you think it could be included in the management commentary?

The DASB understands the concerns about including the proposed information in the notes to the financial information. In our opinion, the explicit objectives and subsequent performance of an acquisition would probably contain non-GAAP indicators and forward-looking information. In general, information with a forward-looking nature is included in the outlook paragraph of the management commentary. If the IASB decides to disclose such information in the financial statements, this is a fundamental change compared to the current information requirements in IFRS.

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

(b) Do you think that the specific information would be more useful, relevant and/or reliable, if it is audited?
In general, the DASB considers the specific information as proposed by the IASB to be more useful, relevant and reliable when it is audited.

(c) Do you think it would be possible to audit the information/prepare the information in a manner that would make it possible to audit it?

We think it would be possible to prepare the information in a manner that would make it possible to audit.

55 Paragraph 42 above states that EFRAG expects that the requirement to disclose that an entity is not monitoring an acquisition could create a market discipline. If you are a user of financial statements, how would it affect your analysis if you receive information that an entity is not monitoring a significant acquisition?

We generally expect a CODM to monitor all relevant business acquisitions for the entity. In case of a disclosure that an entity is not monitoring an acquisition, we assume that any missing information is not considered relevant for the financial statements as a whole and its stakeholders.

56 The IASB considers that it is possible to disclose useful information on the level of achievement of the financial or non-financial targets initially defined at acquisition date and of expected synergies (see Question 4 below), without triggering commercial sensitivity. EFRAG is interested in understanding whether constituents agree with this approach and would like to receive practical examples in this regard.

We consider that it might depend on the required level of detail whether the proposed disclosures of (objectives and subsequent performance of) an acquisition triggers commercial sensitivity. A similar approach as currently included in IAS 37.92, where an entity can (only) abstain from disclosure based on an expected serious prejudice of the position of the entity, could be considered by the IASB to potential commercial sensitivity conflicts as part of this proposal.

57 Would there be any constraints within your jurisdiction that could affect an entity’s ability to disclose the information proposed in the DP? If so, what are those constraints and what effect could they have?

We are not aware of any constraints which prevent an entity in our jurisdiction to disclose the information proposed in the DP.

Section 2 Improving disclosures about acquisitions - DP Question 3

The DASB agrees with EFRAG’s response to question 3 of the DP.

Section 2 Improving disclosures about acquisitions —DP Question 4

The DASB agrees with EFRAG’s response to the DP.

We share the view of the IASB and EFRAG that such proposals, containing metrics on expected costs and benefits from an acquisition, provide useful and relevant information about acquisitions. EFRAG’s response is partly focused on the proposals specifically targeted to synergies and questions whether similar disclosures for other components of goodwill could equally provide useful information. We share EFRAG’s view that the scope of these proposals should be broadened and not only focus on synergies.

Additional comments of the DASB:

- We believe that these proposals are at odds with the generic ‘management-approach’ we proposed in our response to questions 2 and 3 of the DP. Hence, in our view such metrics should not be required in a 'rule-based' manner as currently proposed by the IASB, as businesses can be acquired by management for several reasons, such as expected synergies, cost-reduction, increase of market share or product development/research and development purposes. Synergy is therefore not always the main objective for management to acquire businesses and therefore these proposals will not always be helpful to hold management accountable for the acquisition. Therefore, we are of the opinion that any additional disclosures following the strategic rationale and objectives of an acquisition should also arise from a 'management-approach', as we proposed in our response to questions 2 and 3 of the DP. Hence, any proposed disclosures of metrics on expected costs and benefits from an acquisition should not only be focussed on synergies but must be broadened.

- As mentioned, we believe these disclosures are useful and therefore in our view the benefits will outweigh the costs. As included in our response letter to the IASB, we question whether the information proposed should be part of the financial statements. We recommend the IASB to further explore whether this information should be part of the financial statements or management commentary and other aspects, like the commercial sensitivity of the proposed information.

Section 2 Improving disclosures about acquisitions — DP Question 5

The DASB generally agrees with EFRAG's response to question 5 of the DP, however we do not favour replacing 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs'.

Although we have our reservations about the inherent lack of comparability and reliability of the current pro forma information as required by IFRS 3, we generally support the view that the current requirements for companies to prepare the pro forma information should be retained.

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

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

EFRAG – Question to constituents:

97 In paragraph 85 above, the preliminary view of EFRAG is reflected that pro forma information should be presented in the notes to the financial statements on revenue and a profit measure (see paragraphs 88 - 93) of the combined business for the current reporting period, as though the acquisition date had been as of the beginning of the annual reporting period. Do you agree with EFRAG's preliminary view to retain such a requirement? If not, please explain.

We agree with EFRAG's preliminary view and support to retain the requirement to provide for the pro forma information.

98 In paragraph 95 above, EFRAG questions the usefulness of disclosing 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. Would you find the suggested information useful? Please explain.

We have reservations about the usefulness of these disclosures and are of the opinion that this will not meet the objective to provide useful information to investors at a reasonable cost. Therefore, we do not support this proposal.

99 As a next step in this project, the IASB intends to investigate whether it could remove any of the disclosure requirements from IFRS 3 without depriving investors of material information (IASB DP Paragraph 2.88). Do you have specific input on this topic?

Based on our experiences, IFRS 3.B66 could be considered to remove from the disclosure requirements from IFRS 3. We expect that the initial accounting for any acquisition after year-end will nearly always be incomplete at the time the financial statements are authorized for issue and therefore has little meaning.

Question to preparers: costs of the disclosure (ref. Questions 2 to 5)

100 As mentioned in paragraph 89 above, EFRAG is unsure about how costly it will be to prepare disclosures on how performance figures would have been without the effects of the purchase price allocation (including revaluation to fair value of most of the acquired business' assets and liabilities). Do you assess that this information would be costly to prepare? Please explain.

To increase the comparability and understandability it might be considered by the IASB to prepare the pro forma information without the effects of the purchase price allocation and possibly without foregoing on the revaluation of assets & liabilities to current value. We are of the opinion that any proposal requiring the disclosure of figures without the effect of the purchase price allocation could simplify the preparation of pro forma figures.

101 As mentioned in paragraph 89 above EFRAG seeks input on the costs to prepare the information about 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, in particular when the acquired business is fully integrated and does not prepare separate accounts.

We do not consider this proposal as at reasonable cost for preparers and we also have reservations around the information usefulness for investors. The acquired business will be integrated (in the long-run or short-run) after acquisition date, and therefore we expect this information is not used for internal purposes and therefore costly. Because the time to effect the integration probably takes longer than only the current reporting period (as referred by the IASB in question 5 of the DP), we also have reservations about the usefulness of this information and are not in favor of the proposal.

102 In general (ref. to Questions 2 to 5): EFRAG is also interested in receiving preparers' inputs on the operational implications (e.g. quality of data, internal control and auditability) of these disclosures and their costs.
We expect the operational implications of these proposals will lead to an increase of costs.

Section 3 Goodwill impairment and amortisation - DP Question 6

The DASB generally agrees with EFRAG's response to question 6 of the DP. However, we are of the view that addressing management over-optimism is a prominent part of an audit and scrutiny by investors and therefore we do not favour changing IFRS to address management over-optimism. We refer to our response to question 140 as well.

Similar to the preliminary view of the IASB and the draft response of EFRAG in its DCL, we think it is not feasible to design an impairment test that is significantly more effective at recognising impairment losses on goodwill on a timely basis. Like EFRAG, we are of the opinion that the effectiveness of the current impairment test of IAS 36 can be improved by amending the current principles for goodwill allocation to CGUs, such that goodwill is allocated to the appropriate level at which the acquired business is (integrated and) monitored.

Additional comments of the DASB:

- We believe it is important to better align the impairment test requirements with the way acquisitions/businesses are being monitored in practice. In practice, companies are not monitoring 'goodwill' but instead companies do monitor (the results of) the 'business'. Due to the fact that the impairment test also focuses on the current and future performance of businesses, the IAS 36 principles (IAS 36.80 and further) that determine the (group of) CGUs to which the goodwill is allocated, should better align with the way in which management monitors the performance of the business and therefore might need to be adjusted.
- Like EFRAG, another important area for improvement of the effectiveness of the impairment test are the current principles with regard to (re)allocation of goodwill to CGUs. In our view, due to the current principles companies have too much flexibility to allocate goodwill to (groups of) CGUs. The current principles require a company to allocate goodwill to CGUs or groups of CGUs which shall not be larger than an operating segment. Due to the large size of these operating segments a shielding effect occurs. As outlined above, we believe the allocation of goodwill needs to be better aligned with the way the (acquired) business is monitored by management in practice. This could mean that a critical assessment of the determination of a (group of) CGUs is needed. This also questions whether the operating segment level as used in IAS 36 is still appropriate. We believe that the referred operating segment level of IFRS 8 causes in many cases the level of allocation of goodwill to be too high.
- Finally, we would like to stress that we think it is important that the allocation of goodwill must be reliably determined in such a way that it is also verifiable for auditors. We hold the view that the IASB should consider these aspects of IAS 36 to improve the effectiveness of the current impairment test.

EFRAG – Question to constituents:

136. Do you agree that the IASB should consider improving guidance on allocation and reallocation of goodwill to cash generating units as this would improve the discipline in the application of impairment testing in practice? Do you see such improved guidance in connection with better information about business combinations as a basis for a better assessment on whether there is any indication for impairment?

The DASB agrees with the proposal of EFRAG to the IASB to consider improving the guidance on allocation and reallocation of goodwill. We are of the opinion that due to the current allocation guidance, companies have too much flexibility to allocate goodwill to (groups of) CGUs. In response to question 6 above, we included our suggested directions to better align both the determining of the (groups of) CGUs and on allocation of goodwill. Together with the proposed disclosures we believe this would result in a more effective impairment test and more timely identification of impairment losses.

137 Do you think that the benefit from changing such guidance would outweigh costs? Would there be significant additional costs?

The DASB thinks that the benefit from changing the guidance would definitely outweigh the costs.

138 Do you agree with the IASB's view that management over-optimism is best addressed by auditors and regulators, not by changing IFRS Standards? Please explain why.

We are of the view that addressing management over-optimism is a prominent part of an audit and therefore we do not favor changing IFRS to address management over-optimism. We refer to our response to question 140 as well.

139 To address management over-optimism, EFRAG suggests that the IASB considers developing possible disclosure solutions for a better transparency of the estimates made or their achievement. EFRAG considers that the possible approaches below, or a combination of them, could provide more transparency and more discipline in relation **to being over-optimistic by the management**. Such a requirement will allow users to make a better assessment of the estimations made by management to calculate the recoverable amount. EFRAG notes that such possible requirements could help in identifying events that trigger impairment. Furthermore, as a consequence of being generally overoptimistic over a certain period (e.g. five years) impairment test or additional disclosure requirements (like disclosing recoverable amount calculated on actual basis) could be discussed. Therefore, EFRAG is asking constituents' view on the usefulness and practicability of the following suggestions:

(a) *Historical estimations to allow assessment of over-optimism*
Similar to the disclosure requirements suggested in the DP addressing whether objectives of acquisitions have been met, a disclosure requirement could be introduced on how the management's cash flow predictions differ from the obtained cash flows. This could make it transparent whether the management is over-optimistic. Most useful in this regard would be assessment of target achievement on a mid-term basis for more than the respective preceding year (e.g. assessment of the last prior three years of the mid-term assumptions by comparing projections to the actuals achieved). Such information about achievement of prior projections could be given on a qualitative or quantitative basis.

(b) *Improve information on assumptions over the period for which management has projected cash flows based on financial budgets*
Another possible approach could be to improve the usefulness of the midterm period information as required by IAS 36 paragraphs 134(d)(ii) or 134(e)(ii) as the recoverable amount is driven by assumptions taken to reach a terminal value. According to IAS 36 paragraph 134, an entity has to provide information about the method of estimation of cash flows but not the specific growth rate within the period over which management has projected cash flows based on financial budgets/forecasts. Such growth rate has to be specified only for the terminal value. Requiring disclosure of how the growth rate in the terminal value compares to the current growth rate (e.g.increased by 30%) or to disclose the level of profit margin applied when going into the terminal value could make management estimations transparent and allow users to make their own judgement, especially as such a level of cash flows reached forms the basis of the terminal value and thus the major part of the recoverable amount of the CGU.

(c) *Current level of cash flows/margins or earnings*
Lastly, a requirement could be introduced to provide quantitative information of the present

performance, present relevant margins or current cash flows and therefore give information to the users to do estimations and projections themselves. That information could be used to assess whether a recoverable amount is in question and to give transparency to estimation uncertainty. Furthermore, this approach would avoid any discussion about disclosing forward looking information.

140 Do you consider additional disclosures in relation to estimates used to measure recoverable amounts of cash-generating units containing goodwill is necessary as suggested above? Could those suggested disclosures provide more transparency and more discipline in relation to being over-optimistic by the management? If so, which option in paragraph 139 do you consider best addressing the management over-optimism issue and provide more transparency and more discipline:

(a) achievement of previous estimations (make over-optimism transparent);
(b) information on assumptions related to the period for which management has projected cash flows based on financial budgets;
(c) to disclose the current level of cash flows/earnings to allow users to model themselves.

The DASB supports additional disclosures in relation to estimates used to measure recoverable amounts of cash-generating units containing goodwill. However, we have reservations about the suggestions presented by EFRAG. Basically, we are of the opinion that identifying management-over optimism is a prominent part of, and needs to be addressed by, an audit. We are not convinced that accounting principles need to be developed to address management-over optimism. We do recommend the IASB to investigate whether relevant assumptions about acquisitions, which are already available at the entity and which provide useful information, could be considered to be disclosed.

141 Do you consider that the options listed are feasible and practicable for prepares and provide useful information for users? Please explain your response and explain whether you prefer a combination of them, or whether you consider that other qualitative information could be required.

We refer to our response on question 140.

142 Do you consider it necessary to introduce consequences like discussed in paragraph 120 for those that are generally overoptimistic?

The DASB does not consider it necessary to introduce consequences as discussed in paragraph 120 for those companies that are generally overoptimistic. Such a conclusion would be difficult to make and distracts from the overall aim of the project.

Section 3 Goodwill impairment and amortisation - DP Question 7

In its DCL, EFRAG has not yet formed a view on whether amortisation of goodwill should be reintroduced.

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

EFRAG – Questions to constituents:

165 EFRAG would welcome constituents' views and arguments to the IASB questions listed in Question 7 of the DP. EFRAG is particularly interested in learning whether any new evidence, new arguments or new assessments of the existing evidences have emerged since 2004.

166 When looking for new evidence and impact analyses, EFRAG invites you to also refer to other areas of regulation that may provide indirect incentives to prefer one or the other approach, such as tax deductibility of goodwill or prudential treatment of goodwill in case of regulated entities.

167 Two of the different arguments in favour of amortisation included in paragraphs 156 and 159 above are that: (a) Goodwill is a wasting asset; and (b) Goodwill is an accounting construct, which is not useful to have on the statement of financial position. Do you think that goodwill (or some of the parts goodwill consists of) is (are) a wasting asset(s)? Do you consider goodwill to be an accounting construct that it is not useful to have recognised in the statement of financial position? Please explain.

Many DASB members are of the opinion that goodwill is a wasting asset and are in favor of the amortisation of goodwill, we refer to our response above. Although we do not disagree that goodwill is an accounting construct, we do not support the view that goodwill is not useful to have on the statement of financial position. Goodwill reflects certain future benefits and could therefore be seen as useful information.

168 Paragraph 163 states that goodwill impairment losses are often added back when entities are presenting "underlying profit" (or similar non-GAAP measures). If amortisation were to be reintroduced, do you think that companies would adjust or create new management performance measures to add back the amortisation expense? Why or why not?

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

169 If amortisation is not reintroduced, do you consider that it would be useful to require companies to disclose information about the "age" of goodwill to reflect which part of their goodwill is older (and thus, by some is considered to be less relevant)?
We are of the opinion that a requirement to disclose information about the age of goodwill would provide useful information.

Section 3 Goodwill impairment and amortisation - DP Question 8

The DASB agrees with EFRAG's response to question 8 of the DP.

Section 4 Simplifying the impairment test —DP Question 9

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

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

EFRAG – Questions to constituents:

197 EFRAG has illustrated in the paragraphs above the implications of and concerns about the adoption of an indicator-only approach. The IASB has received the feedback that the impairment test is considered to be complex by many preparers. Accordingly, some stakeholders considered that if companies do not perform an impairment test regularly, their expertise in performing the test is likely to decline. Thereafter, it could be difficult for preparers to execute the complex test in a situation where impairment is triggered. This could further reduce the effectiveness of the impairment test and the confidence in the reliability of the test. Do you agree with this feedback and with the concerns expressed above? If so, what measures could be taken to mitigate this issue? If not, why not and how audit evidence is reached without a yearly impairment test?

We do not disagree with this feedback and this could be seen as an inherent concern. We only support the introduction of an indicator-only approach when combined with annual amortisation of goodwill, please refer to our response to question 9 above.

Section 4 Simplifying the impairment test DP - Question 10

The DASB agrees with EFRAG's response to question 10 of the DP.

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

Questions for EFRAG's constituents

217 The DP suggests removing the restriction that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. Do you think that there are other cash flows (inflows and outflows) that should also be allowed to be included in the value in use calculation (e.g. cash flows from investments that could increase the production capacity for a group of assets that are part of the same cash generating unit)?

We support the proposal to allow planned future restructurings (inflows and outflows) and capital enhancements being incorporated in the cash flow projections to determine the value-in-use ('ViU') of the CGU. Just like addressed in your DCL, we question whether other cash flows (in- or outflows) should also be included in the ViU calculation and prefer a generic principle for these cash flows. We favor a general level of safeguard (such as a threshold) for all types of plans and ideas being reflected in the projections, like for example the requirement that the cash flows from such plans should be detailed enough to determine the relevant cash inflows/outflows and should be internally approved by management in the reporting period (by analogy with the requirements as applicable for restructuring provisions in IAS 37.71 and up).

218 Post-tax input for the calculation of value in use of a cash generating unit might, unless otherwise specified, take into account items such as unused tax loss carryforwards which would not meet the criteria for recognition under IAS 12 Income Taxes (and would accordingly not be included in the carrying amount of a cash generating unit). Potentially this could result in a goodwill impairment loss not being recognised when post-tax inputs are used, that would have been recognised had pre-tax inputs been used. Do you consider this risk to be significant? Do you think that it should be explicitly required that when post-tax inputs are used, this input should be aligned with the principles of IAS 12? Do you think there are other ways to deal with the issue?

We consider this as a risk and we are of the opinion that when post-tax inputs are used, these inputs should align with the principles of IAS 12. We are not aware of other ways to deal with the issue.

219 In addition to the issue described above in paragraph 218, do you think that there are other issues or risks that could arise from the use of post-tax inputs in the value in use calculation?

We are not aware of other issues or risks, however we would like to stress that it is our observation that currently different post-tax calculations exist in practice. Therefore, we would recommend the IASB to implement additional guidance for preparing post-tax calculations to improve comparability and consistency.

Section 4 Simplifying the impairment test - DP Question 11

The DASB agrees with EFRAG's response to question 11 of the DP.

Like EFRAG, we support to add further guidance on allocating goodwill to CGUs. We refer to our response to question 6.

Section 5 Intangible assets - DP Question 12

The DASB agrees with EFRAG's response to question 12 of the DP, recommending the IASB to consider the issue on whether some intangible assets could be included in goodwill in a second phase of the project together with a revision of IAS 38.

Additional comments of the DASB:

- For certain acquired assets, the distinction between goodwill and an acquisition related intangible asset is often conceptually not clear in practice. And when acquisition related intangible assets are recognised, the distinction in practice between these and those intangible assets that are capitalized as a result of capital expenditures is often quite difficult to assess. As acquisition related intangibles are generally perceived as subjective by users as well, we question whether the benefits of identifying certain intangible assets from a business combination outweigh the costs and contribute to useful information. Therefore, we welcome further investigation by the IASB to explore whether this distinction can be made more clear in IFRS, or to no longer differentiate in the recognition principles of intangible assets from a business combination compared to the normal recognition principles of intangible assets in IAS 38.
- We believe that additional principles to IAS 38 to present a subtotal of the acquisition related intangibles to distinguish the acquisition related intangible assets from intangible assets from capital expenditures contributes to useful information. We recommend the IASB to consider this proposal.

Question to constituents that are users of financial statements

239 Would you be in favour of including some of the intangible assets acquired in a business combination that are currently recognised separately in goodwill?

(a) If yes, under which circumstances would you include in goodwill, intangible assets acquired in a business combination that are currently recognised separately?

For certain types of intangible assets, like for example non-contractual customer relationships, where a contractual basis is missing to support the fair value of the intangible asset at acquisition date, we believe it should be included in goodwill.

(b) If no, how do you currently use the information about intangible assets acquired in a business combination that are currently recognized separately?

Not applicable, refer to (a).

Section 6 Other recent publications - DP Question 13

The DASB agrees with EFRAG's response to question 13 of the DP.

Section 6 Other recent publications - DP Question 14

The DASB agrees with EFRAG's suggestions to develop more guidance on goodwill allocation on divested business and reorganisation. We believe the general allocation principles could be improved as well, as we explained in response to question 6.

We do not support EFRAG's suggestion the include a discussion on separating goodwill into components, neither do we support considering a reversal of goodwill impairments in general or in an interim period.

Additional comments DASB:

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

EFRAG – Question to Constituents

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Effects of deferred tax liabilities and other tax implications

258 Paragraph 19 of IAS 12 states that “[w]ith limited exceptions, the identifiable assets acquired, and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired, and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill.”

259 This means that a portion of goodwill may result from the effects of deferred tax liabilities. This portion of goodwill does not represent the “core goodwill”, i.e. the fair value of the going concern element of the acquiree’s existing business and the fair value of the expected synergies and other benefits from combining the acquirer’s and acquiree’s net assets and businesses (see BC313-BC318 of IFRS 3). This portion of goodwill is only due to an accounting mismatch arising from the fact that deferred taxes are not recognised at fair value in business combinations.

260 It may be argued that, after the business combination, the portion of goodwill resulting from the effects of deferred tax liabilities should be reduced over time (i.e. reversed to P&L) to reflect the reduction of the deferred tax liabilities that originated that portion of goodwill.

261 Is the portion of goodwill resulting from the effects of deferred tax liabilities significant compared with the goodwill recognised in your financial statements/in your jurisdiction (e.g. >10% of recognised goodwill)?

We concur with the view that a portion of the goodwill results from the effect of deferred tax liabilities. Often this forms a significant part of the recognized goodwill.

262 Would you support a change in the goodwill accounting (along the lines of paragraph 260 above), such that the portion of goodwill resulting from the effects of deferred tax liabilities, is subsequently measured at an amount that reflects the deferred tax liabilities

that originated that portion of goodwill? Please explain. The IASB is proposing in this DP to allow for the adoption of post-tax inputs for the calculation of the value in use. How would such a proposal interact with the issue described in the above paragraphs (i.e. goodwill originated by an accounting mismatch due to effect of deferred tax liabilities? Please explain.

We are in favour of such a change in the goodwill accounting as described above. Like argued in p260 above, the portion of goodwill resulting from the effects of deferred tax liabilities should be reduced over time and recognized in profit and loss.

263 Would you anticipate other tax implications from the proposals in the DP?

We are not aware of other tax implications from the proposals in the DP.

Reversal of goodwill impairment losses
264 Should the IASB consider introducing reversal of goodwill impairments in general and specifically in the case of impairment losses recognised in an interim period (see paragraphs 255-257? If yes, please specify why and under which circumstances.

We do not support considering a reversal of goodwill impairments in general or when recognized in an interim period.