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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
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Zurich, 4 April 2003

Comments on Exposure Draft ED 3: Business Combinations

Dear Sir David,

We welcome the opportunity to comment on the above Exposure Draft. Please find enclosed both our response to each question asked in the ED and our additional comments. In summary, our main concerns with the proposed changes are as follows:

- Interaction of phase 1 and 2: We believe that phase 1 and phase 2 of the business combinations project should result in **one** standard. A number of areas dealt with in ED 3 may have to be amended as a result of phase 2, which will cause confusion and may endanger the acceptance of IFRS as global standards.
- Goodwill and impairment: We do **not** believe that goodwill should no longer be amortised but tested for impairment annually. We believe that goodwill **is** consumed in the ordinary course of an enterprise's operations. It is indeed difficult to measure this consumption reliably. The current requirement to amortise goodwill over its estimated useful life ensures a systematic (although arbitrary) recognition of the consumption of goodwill. On balance, our committee believes that this approach should be retained.
- Intangible assets: We agree that intangible assets, based on the changed recognition criteria, should be separately recognised in a business combination. However, we have some concerns about the practical application of these recognition criteria, especially regarding the detailed level at which such intangibles will have to be separated. A lack of active markets for many intangible assets makes a separation from other assets difficult. We further believe that all intangible assets should continue to be amortised over their estimated useful lives.
- Contingent liabilities: We do **not** believe that contingent liabilities "acquired" in a business combinations should be recognised at fair value when determining goodwill. Both the initial recognition and the re-measurement to fair value are inconsistent with IAS 37 and the Framework.
- Disclosures: We are concerned about the proposed extensive disclosures on business combinations and impairment.

Yours sincerely,

Swiss Institute of Certified Accountants and Tax Consultants

Accounting and Auditing Practices Committee

Urs Moser　　　　Philipp Hallauer

ED 3 Business Combinations - Comments on questions

Question 1 - Scope

The Exposure Draft proposes:

(a) to exclude from the scope of the IFRS business combinations in which separate entities or operations of entities are brought together to form a joint venture, and business combinations involving entities under common control (see proposed paragraphs 2 and 3 and paragraphs BC9-BC11 of the Basis for Conclusions). Are these scope exclusions appropriate? If not, why not?

Yes, we agree with the proposed scope exclusions. We welcome the Board's intention to address common control transactions and accounting for joint ventures in the second phase of this project.

(b) to include in the IFRS a definition of business combinations involving entities under common control, and additional guidance on identifying such transactions (see proposed paragraphs 9-12 and Appendix A, and paragraphs BC12-BC15 of the Basis for Conclusions). Are the definition and additional guidance helpful in identifying transactions within the scope exclusion? If not, what additional guidance would you suggest, and why?

Yes, the additional guidance is helpful.

Question 2 – Method of accounting for business combinations

The Exposure Draft proposes to eliminate the use of the pooling of interests method and require all business combinations within its scope to be accounted for by applying the purchase method (see proposed paragraphs 13-15 and paragraphs BC18-BC35 of the Basis for Conclusions).

Is this appropriate? If not, why not? If you believe the pooling of interests method should be applied to a particular class of transactions, what criteria should be used to distinguish those transactions from other business combinations, and why?

Yes, we agree that the pooling method should be eliminated. The judgement involved in applying the criteria for pooling does not lead to comparable results.

Question 3 - Reverse acquisitions

Under IAS 22 Business Combinations, a business combination is accounted for as a reverse acquisition when an entity (the legal parent) obtains ownership of the equity of another entity (the legal subsidiary) but, as part of the exchange transaction, issues enough voting equity as consideration for control of the combined entity to pass to the owners of the legal subsidiary. In such circumstances, the legal subsidiary is deemed to be the acquirer. The Exposure Draft:

(a) proposes to modify the circumstances in which a business combination could be regarded as a reverse acquisition by clarifying that for all business combinations effected through an exchange of equity interests, the acquirer is the combining entity that has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities. As a result, a reverse acquisition occurs when the legal subsidiary has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities (see proposed paragraph 21 and paragraphs BC37-BC41 of the Basis for Conclusions).

Is this an appropriate description of the circumstances in which a business combination should be accounted for as a reverse acquisition? If not, under what circumstances, if any, should a business combination be accounted for as a reverse acquisition?

Yes, we agree with this proposal. Substance over form is important when to decide how to account for a business combination. The entity with the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities is the "true" acquirer.

(b) proposes additional guidance on the accounting for reverse acquisitions (see proposed paragraphs B1-B14 of Appendix B).

Is this additional guidance appropriate? If not, why not? Should any additional guidance be included? If so, what specific guidance should be added?

Yes, the guidance is useful and should be kept as an Appendix.

Question 4 - Identifying the acquirer when a new entity is formed to effect a business combination

The Exposure Draft proposes that when a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination should be adjudged the acquirer on the evidence available (see proposed paragraph 22 and paragraphs BC42-BC46 of the Basis for Conclusions).

Is this appropriate? If not, why not?

Yes, this is appropriate.

Question 5 - Provisions for terminating or reducing the activities of the acquire

Under IAS 22, an acquirer must recognise as part of allocating the cost of a business combination a provision for terminating or reducing the activities of the acquiree (a 'restructuring provision') that was not a liability of the acquiree at the acquisition date, provided the acquirer has satisfied specified criteria. The Exposure Draft proposes that an acquirer should recognise a restructuring provision as part of allocating the cost of a business combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (see proposed paragraph 40 and paragraphs BC55-BC66 of the Basis for Conclusions).

Is this appropriate? If not, what criteria should an acquirer be required to satisfy to recognise a restructuring provision that was not a liability of the acquiree as part of allocating the cost of a combination, and why?

Yes, the suggested change is appropriate and consistent with the requirements in IAS 37 on restructuring provisions.

Question 6 - Contingent liabilities

The Exposure Draft proposes that an acquirer should recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, provided their fair values can be measured reliably (see proposed paragraphs 36 and 45 and paragraphs BC80-BC85 of the Basis for Conclusions).

Is this appropriate? If not, why not?

No, we are strongly opposed to this proposal that will lead to different accounting for contingent liabilities depending on whether they were "acquired" in a business combination or not. The key definition of a liability as a present obligation should be retained. We do not see the conceptual basis for accounting for future obligations. The proposed change would establish fundamental inconsistencies with both the Framework and IAS 37. Additionally, we have concerns about the reliability of such fair value measurements.

Question 7 - Measuring the identifiable assets acquired and liabilities and contingent liabilities assumed

IAS 22 includes a benchmark and an allowed alternative treatment for the initial measurement of the identifiable net assets acquired in a business combination, and therefore for the initial measurement of any minority interests. The Exposure Draft proposes requiring the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree will be stated at the minority's proportion of the net fair values of those items. This proposal is consistent with the allowed alternative treatment in IAS 22 (see proposed paragraphs 35 and 39 and paragraphs BC88-BC95 of the Basis for Conclusions).

Is this appropriate? If not, how should the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of a business combination be measured when there is a minority interest in the acquiree, and why?

Yes, we agree with the proposed change. This treatment is widely used in practice and results in meaningful amounts for the net assets acquired.

Question 8 - Goodwill

The Exposure Draft proposes that goodwill acquired in a business combination should be recognised as an asset and should not be amortised. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses (see proposed paragraphs 50-54 and paragraphs BC96-BC108 of the Basis for Conclusions).

Do you agree that goodwill acquired in a business combination should be recognised as an asset? If not, how should it be accounted for initially, and why? Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses? If not, how should it be accounted for after initial recognition, and why?

We agree that goodwill acquired in a business combination should be recognised as an asset.

However, on balance **we disagree** with the proposal that goodwill should no longer be amortised but tested for impairment annually. A majority of the members of our committee believe the current requirements ensure a reasonable (although arbitrary) approximation of the consumption of goodwill in the course of continuing operations and avoid accounting for internally generated goodwill. In many instances, goodwill will have a determinable useful life that is relatively short. Current requirements are consistent with the framework that does not allow internally generated intangibles to be recognised on the balance sheet. We are opposed to recognising internally generated goodwill and intangibles.

Recent experiences in the U.S. have shown that companies write off unreasonably large amounts of goodwill at once based on an impairment test that include significant assumptions and uncertainties. The results disclosed are difficult to understand, and the price paid for the goodwill is derecognised and forgotten immediately. We have significant doubts whether this reflects a true and fair view of such acquisitions.

We also do not support the proposed new two-step impairment testing of goodwill. We have doubts that the valuation of net assets in cash generating units to which goodwill is allocated will work reliably in practice. Experience has shown that it is extremely difficult to come up with an audit opinion on such tests. And the costs of performing such tests are considerable.

Based on the above arguments, we believe that the current rules should be retained. While we fully support the Board's efforts towards convergence of IFRS and US GAAP and the creation of a global accounting framework, we believe that the IASB should not pursue convergence with US GAAP at any price.

We further suggest the project group working on Performance Reporting analyse how goodwill amortisation could be included in the proposed performance statement.

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Question 9 - Excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities

In some business combinations, the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the combination exceeds that cost. The Exposure Draft proposes that when such an excess exists, the acquirer should:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

(See proposed paragraphs 55 and 56 and paragraphs BC109-BC120 of the Basis for Conclusions.)

Is this treatment appropriate? If not, how should any such excess be accounted for, and why?

No, we do not entirely agree with this proposal. We propose the following treatment of negative goodwill:

1. Intangible assets should only be recognised to the extent that they do not create or increase negative goodwill.

2. If any negative goodwill remains, the identification and measurement of the acquiree's identifiable assets and liabilities (excluding contingent liabilities), and the measurement of the cost of the acquisition should be re-assessed.

3. If any negative goodwill remains, the remaining part should immediately be recognised in net income.

We agree that a negative goodwill should not be left on the balance sheet and taken to the income statement as expected losses occur, as that in fact means that a provision for future losses is recognised (which is not in compliance with IAS 37 and the Framework).

Question 10 - Completing the initial accounting for a business combination and subsequent adjustments to that accounting

The Exposure Draft proposes that:

(a) if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination occurs because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer should account for the combination using those provisional values. Any adjustment to those values as a result of completing the initial accounting is to be recognised within twelve months of the acquisition date (see proposed paragraphs 60 and 61 and paragraphs BC123-BC126 of the Basis for Conclusions).

Is twelve months from the acquisition date sufficient time for completing the accounting for a business combination? If not, what period would be sufficient, and why?

Yes, we agree with the 12 month limitation.

(b) with some exceptions carried forward as an interim measure from IAS 22, adjustments to the initial accounting for a business combination after that accounting is complete should be recognised only to correct an error (see proposed paragraphs 62 and 63 and paragraphs BC127-BC132 of the Basis for Conclusions).

Is this appropriate? If not, under what other circumstances should the initial accounting be amended after it is complete, and why?

Yes, we agree that adjustments to the initial accounting for a business combination after 12 months should be recognised only to correct an error.

In respect of deferred taxes dealt with in paragraph 64, no time limit is mentioned. It should be clarified whether the time limitation applies or not.

Other issues

1. We believe that the IASB proposes an unreasonable extent of disclosures on this topic. There is an apparent lack of cost benefit considerations relating to such proposals. We are surprised that no question was asked on the proposed disclosures in the invitation to comment. Specifically, **we strongly disagree with the following disclosures**:

   - P 65 and 76: P. 65 sets out the objective of the disclosures. It is as such a guidance paragraph. P. 76 basically requires anything to be disclosed that helps achieving this objective. This is an approach we cannot support since it will lead to difficulties in practice when it comes to determining whether an enterprise has complied with all disclosure requirements under IFRS. Furthermore, post balance sheet acquisitions are covered by IAS 10 and should not be included in this Standard.

   - P 66 e: The purchase price and details of an acquisition are often agreed to be kept confidential. It should therefore at least be allowed to present such disclosures on an aggregate basis.

   - P. 66 f: The carrying amount of assets, liabilities and contingent liabilities determined in accordance with IFRS immediately before the combination - this is an irrelevant disclosure. Net assets acquired are already disclosed in accordance with IAS 7.40.

   - P 66 i: The acquiree's profit or loss included in the reporting enterprise's income statement since the date of acquisition may no longer be available when the acquired operations have been integrated. The effect of changes in the scope of consolidation are already disclosed under IAS 27.32(b)(iv).

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- P 68: The disclosure of the fact that the initial accounting for a business combination is provisional is useless, because any company will want to make use of the 12 month window, therefore providing a standard clause to justify it.

- P 69: We are strongly against such pro forma disclosures. They do not reflect the reality, they question the concept of purchase accounting, and they should not be subject to auditing procedures. This is MD&A type of information that does not belong to the notes.

2. Derivatives related to a business combination: Guidance is needed on how to account for options and other derivatives that are issued to carry out a business combination (paragraph 7). When such instruments are involved, the substance of the transaction is often the acquisition of a subsidiary, but for tax or legal purposes, ownership of the shares cannot be transferred directly to the acquirer. Therefore the acquisition is delayed, but options or other derivatives are given to the acquirer. In some cases, according to the substance of the transaction, these derivatives are most appropriately treated as part of the cost of the acquisition and not shown as derivatives under IAS 39. But as the standards (ED 2, ED 3 and IAS 39) are drafted at the moment, all of these, except those that are "presently exercisable voting rights" as defined in SIC-33, would fall under IAS 39.

3. Bonus payments: Clarification would be useful on how to treat bonus payments to management of the acquiring entity to enhance the acquisition deal going through (refer to paragraph 28). Presumably, such costs should be treated as indirect costs of the acquisition to be expensed as incurred.

4. Effective date: Paragraph 84 encourages early application while paragraph 77 says that the standard is applicable for business combinations for which the agreement date is on or after the date the IFRS is issued. We do not believe that early application is appropriate under these circumstances.

Proposed amendments to IAS 38 Intangible Assets

Question 1 – Identifiability

The Exposure Draft proposes that an asset should be treated as meeting the identifiability criterion in the definition of an intangible asset when it is separable or arises from contractual or other legal rights (see proposed paragraphs 10 and 11 and paragraphs B6-B10 of the Basis for Conclusions).

Are the separability and contractual/other legal rights criteria appropriate for determining whether an asset meets the identifiability criterion in the definition of an intangible asset? If not, what criteria are appropriate, and why?

Yes, we believe the separability and contractual/other legal rights criteria to be appropriate to use when evaluating if an intangible asset is identifiable.

However, it appears like the ED does not sufficiently stress the fact that an asset has to be controlled by an entity in order to be recognised. Even if an intangible item may be separable or subject to contractual/legal rights, it may not be controlled. This could for example be the case of an acquired customer list (when the customers on the list have not signed an exclusive agreement to purchase products/services over a certain specified period). An entity cannot control customer behaviour (i.e. not control any expected benefits from using the list). We recommend that the recognition criteria for intangibles acquired in a business combination and those acquired separately be made the same.

Question 2 – Criteria for recognising intangible assets acquired in a business combination separately from goodwill

This Exposure Draft proposes clarifying that for an intangible asset acquired in a business combination, the probability recognition criterion will always be satisfied and, with the exception of an assembled workforce, sufficient information should always exist to measure its fair value reliably (see proposed paragraphs 29-32 and paragraphs B11-B15 of the Basis for Conclusions). Therefore, as proposed in ED 3, an Exposure Draft of a proposed International Financial Reporting Standard Business Combinations, an acquirer should recognise, at the acquisition date and separately from goodwill, all of the acquiree's intangible assets, excluding an assembled workforce, that meet the definition of an intangible asset (see proposed paragraphs 36, 43 and 44 of ED 3).

Do you agree that, with the exception of an assembled workforce, sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination? If not, why not? The Board would appreciate respondents outlining the specific circumstances in which the fair value of an intangible asset acquired in a business combination could not be measured reliably.

First of all, we believe that goodwill and other intangibles acquired in a business combination should be treated in the same way as any other tangible or intangible asset, namely being amortised over their estimated useful lives, and for intangible assets, with a rebuttable presumption that useful life would not exceed 20 years. Separate identification, and disclosure, of intangibles included in goodwill will help assessing the useful life of goodwill reliably.

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However, we have some doubts about the IASB's presumption that fair values of all intangible assets acquired in a business combination can always be reliably measured. Many intangibles, such as customer lists and relationships, mastheads etc. lack an observable market and should not be recognised separately. Furthermore, different recognition criteria for intangible assets, depending on whether they are acquired or internally generated, create inconsistencies that we would generally like to avoid. We therefore believe that such intangibles should be included in goodwill, and the nature of goodwill disclosed in the notes by reference to its underlying intangibles.

Question 3 – Indefinite useful life

The Exposure Draft proposes to remove from IAS 38 the rebuttable presumption that an intangible asset's useful life cannot exceed twenty years, and to require its useful life to be regarded as indefinite when, based on an analysis of all of the relevant factors, there is no foreseeable limit on the period of time over which the asset is expected to generate net cash inflows for the entity (see proposed paragraphs 85-88 and paragraphs B29-B32 of the Basis for Conclusions).

Is this appropriate? If not, under what circumstances, if any, should an intangible asset be regarded as having an indefinite useful life?

No, we do not agree with the proposal to remove the rebuttable presumption. See comments on Q. 5.

Question 4 – Useful life of intangible asset arising from contractual or other legal rights

The Exposure Draft proposes that if an intangible asset arises from contractual or other legal rights that are conveyed for a limited term that can be renewed, the useful life shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost (see proposed paragraphs 91 and 92 and paragraphs B33-B35 of the Basis for Conclusions).

Is this an appropriate basis for determining the useful life of an intangible asset arising from contractual or other legal rights that are conveyed for a limited term that can be renewed? If not, under what circumstances should the useful life include the renewal period(s)?

Yes, we agree with the proposal.

Question 5 – Non-amortisation of intangible assets with indefinite useful lives

The Exposure Draft proposes that an intangible asset with an indefinite useful life should not be amortised (see proposed paragraphs 103 and 104 and paragraphs B36-B38 of the Basis for conclusions).

Is this appropriate? If not, how should such assets be accounted for after their initial recognition?

No, we do not believe this is appropriate. In consistency with our opinion that goodwill should continue to be amortised, we believe that intangible assets should also continue to be amortised (i.e. intangible assets cannot be regarded to have an indefinite life) and that the 20 year rebuttable presumption should be retained. We believe that only intangible assets with a contractual or legal time frame may be amortised over a longer period than 20 years.

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Other issues

1. Effective date: Paragraph 127 encourages early application while paragraph 124 says that the standard is applicable for intangible assets acquired in a business combination for which the agreement date is ("on or"?) after the date the IFRS is issued. We do not believe that early application is appropriate under these circumstances.

Proposed amendments to IAS 36 Impairment of Assets

Question 1 – Frequency of impairment tests

Are the proposals relating to the frequency of impairment testing intangible assets with indefinite useful lives and acquired goodwill appropriate (see proposed paragraphs 8 and 8A and paragraphs C6, C7 and C41 of the Basis for Conclusions)? If not, how often should such assets be tested for impairment, and why?

No, we do not agree with the proposal to abolish amortisation of goodwill and certain intangibles with a requirement to perform an annual impairment test. We believe that the current rules on amortisation of goodwill and intangibles are reasonable and should be retained (see our comments on ED-3). As a consequence, we believe that the current rules on impairment should be retained with the exception that actual cash flows and management's past ability to forecast cash flows accurately should be taken into account.

Question 2 – Intangible assets with indefinite useful lives

The Exposure Draft proposes that the recoverable amount of an intangible asset with an indefinite useful life should be measured, and impairment losses (and reversals of impairment losses) for such assets accounted for, in accordance with the requirements in IAS 36 for assets other than goodwill (see paragraphs C10-C11 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount be measured, and impairment losses (and reversals of impairment losses) be accounted for?

No, we believe that the current rules on amortisation of intangible assets and impairment testing should be generally retained.

Question 3 – Measuring value in use

The Exposure Draft proposes additional guidance on measuring the value in use of an asset. Is this additional guidance appropriate? In particular:

(a) should an asset's value in use reflect the elements listed in proposed paragraph 25A? If not, which elements should be excluded or should any additional elements be included? Also, should an entity be permitted to reflect those elements either as adjustments to the future cash flows or adjustments to the discount rate (see proposed paragraph 26A and paragraphs C66 and C67 of the Basis for Conclusions)? If not, which approach should be required?

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Yes, the value in use should reflect the elements listed.

Yes, companies should be able to reflect those elements either as adjustments to future cash flows or to the discount rate.

(b) ***should the assumptions on which cash flow projections are based take into account both past actual cash flows and management's past ability to forecast cash flows accurately (see proposed paragraph 27(a)(ii) and paragraphs C66 and C67 of the Basis for Conclusions)? If not, why not?***

Yes, we strongly believe that both actual cash flows and management's past ability to forecast cash flows accurately should be taken into account.

(c) ***is the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use appropriate? If not, why not? Is it sufficient? If not, what should be added?***

Yes, the guidance seems appropriate to us.

Question 4 – Allocating goodwill to cash-generating units

The Exposure Draft proposes that for the purpose of impairment testing, acquired goodwill should be allocated to one or more cash-generating units.

(a) ***Should the allocation of goodwill to one or more cash-generating units result in the goodwill being tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format (see proposed paragraphs 73-77 and paragraphs C18- C20 of the Basis for Conclusions)? If not, at what level should the goodwill be tested for impairment, and why?***

Yes, we believe that goodwill should be tested for impairment at the level at which management monitors the return on investment.

(b) ***If an entity disposes of an operation within a cash-generating unit to which goodwill has been allocated, should the goodwill associated with that operation be included in the carrying amount of the operation when determining the gain or loss on disposal (see proposed paragraph 81 and paragraphs C21-C23 of the Basis for Conclusions)? If not, why not? If so, should the amount of the goodwill be measured on the basis of the relative values of the operation disposed of and the portion of the unit retained or on some other basis?***

Yes, goodwill should be included in the carrying amount when determining the gain or loss on disposal. Relative values of the operation disposed of seem as good as any other basis, unless the substance or the contractual agreements underlying the original transaction indicates the reasons and specific nature of the goodwill, and to which entity it primarily relates.

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(c) ***If an entity reorganises its reporting structure in a manner that changes the composition of one or more cash-generating units to which goodwill has been allocated, should the goodwill be reallocated to the units affected using a relative value approach (see proposed paragraph 82 and paragraphs C24 and C25 of the Basis for Conclusions)? If not, what approach should be used?***

Yes, the goodwill should be reallocated to the units based on a relative value approach, unless the substance or the contractual agreements underlying the original transaction indicates the reasons and specific nature of the goodwill, and to which entity it primarily relates.

Question 5 – Determining whether goodwill is impaired

The Exposure Draft proposes:

(a) ***that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price (see proposed paragraphs 5 (definition of recoverable amount) and 85 and paragraph C17 of the Basis for Conclusions).***

Is this appropriate? If not, how should the recoverable amount of the unit be measured?

Yes, we agree with this concept, as it is already applicable today.

(b) ***the use of a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash-generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount (see proposed paragraph 85 and paragraphs C42-C51 of the Basis for Conclusions).***

Is this an appropriate method for identifying potential goodwill impairments? If not, what other method should be used?

(c) ***that if an entity identifies goodwill allocated to a cash-generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see proposed paragraphs 85 and 86 and paragraphs C28-C40 of the Basis for Conclusions).***

Is this an appropriate method for measuring impairment losses for goodwill? If not, what method should be used, and why?

No, we do not agree with b) and c) above. As stated above, we do not support the proposed new two-step impairment testing of goodwill. This approach is unnecessarily complex, would certainly cause an undue burden to preparers, and would be difficult to audit. We believe that the current rules on impairment should be retained with the exception that actual cash flows and management's past ability to forecast cash flows accurately should be taken into account in order to ensure timely recognition of an impairment.

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Question 6 – Reversals of impairment losses for goodwill

The Exposure Draft proposes that reversals of impairment losses recognized for goodwill should be prohibited (see proposed paragraph 123 and paragraphs C62-C65 of the Basis for Conclusions).

Is this appropriate? If not, what are the circumstances in which reversals of impairment losses for goodwill should be recognised?

Yes, we believe this is appropriate considering that goodwill is a residual.

Question 7 – Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

The Exposure Draft proposes requiring a variety of information to be disclosed for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives (see proposed paragraph 134 and paragraphs C69-C82 of the Basis for Conclusions).

(a) Should an entity be required to disclose each of the items in proposed paragraph 134? If not, which items should be removed from the disclosure requirements, and why?

No, we find the disclosures taken as a whole excessive. While we are in favour of disclosing the significant assumptions underlying an impairment loss, we are strongly opposed to any sensitivity analysis as proposed in paragraph 134(e)(iv)&(v) and (f)(ii). We further do **not** believe that the benefits achieved with the proposed disclosures will outweigh the costs of providing the information.

(b) Should the information to be disclosed under proposed paragraph 134 be disclosed separately for a cash- generating unit within a segment when one or more of the criteria in proposed paragraph 137 are satisfied? If not, why not?

No, we believe that disclosure by primary segment is more than sufficient. Again, we do **not** believe that the benefits achieved with the proposed disclosures will outweigh the costs of providing this information.

The extensive proposed disclosure requirements show that the IASB is aware of the lack of reliability that may result from the proposed approach to no longer amortise goodwill and certain intangible assets. We do not believe that such a large extent of MD&A type of disclosures will compensate for the difficulties to come up with reasonable amounts to be included in the balance sheet. We therefore believe that the current accounting for goodwill and intangibles and related disclosures should be generally retained.