18 December 2020

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

Via email: standard@aasb.gov.au

Dear Keith

AASB Discussion Paper: Business Combinations – Disclosures, Goodwill and Impairment

As the representatives of over 200,000 professional accountants in Australia, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Discussion Paper (DP).

CPA Australia and CA ANZ made a submission to the International Accounting Standards Board (IASB) on its Discussion Paper DP/2020/1 Business Combinations – Disclosures, Goodwill and Impairment. We attach the same to this letter for your attention. We expect the comments included in our attached submission to the IASB will also be relevant to the Australian Accounting Standards Board (AASB) when it considers the potential application of the proposals arising from DP in an Australian context.

Reintroduction of amortisation of goodwill

In addition to the comments in our attached letter to the IASB, we have received stakeholder feedback that highlights a matter that we believe is relevant to the AASB and Australian financial reporting. As noted in our letter to the IASB, many proponents favour the reintroduction of amortisation of goodwill. Our outreach activities in Australia have highlighted similar support.

In addition to the above, we have also received feedback that, whilst the current annual impairment model may be acceptable for publicly accountable entities, there is a need to reconsider whether this requirement remains appropriate for non-publicly accountable entities. As noted in the DP, the focus of the proposals is to provide investors with more useful information about acquisitions. For many non-publicly accountable entities, such as large proprietary companies that are privately owned or have a small group of stakeholders interested in their financial activities, the imperative to publicly disclose information to investors is less compelling. Also, quite often these entities do not have inhouse expertise to undertake annual impairment reviews and often rely on external professional advisors to undertake this exercise, which is often a time consuming and costly exercise. Therefore, the cost of compliance with annual impairment reviews may potential exceed any benefits arising for these entities.

Although the annual impairment model was introduced as part of a convergence project between the IASB and the US Financial Accounting Standards Board (FASB), the DP notes that the FASB has departed from this requirement and has introduced amortisation of goodwill for private companies and not-for-profit entities (paragraph 6.6).

We appreciate that the AASB has recently concluded its for-profit financial reporting framework project and has decided to retain all recognition and measurement requirements in Australian Accounting Standards (AAS) for entities that have statutory obligations to prepare financial statements in accordance with AAS. This would mean that all for-profit entities affected by the change will be required to comply with the annual impairment model if the IASB decides to retain this requirement. IFRS for SMEs allows for the amortisation of goodwill; although we note that the AASB has decided not to pursue this option as part of its for-profit financial reporting framework project.

Given that the AASB only recently concluded its for-profit financial reporting framework project, we do not expect the AASB would consider any major changes to its recently introduced framework at this time. Therefore, we suggest the AASB takes note of the above observations and revisit this matter:

- if the IASB decides to change its current annual impairment model to reintroduce amortisation or adopt an alternative approach, or
- when the AASB undertakes a post implementation review of the recently introduced for-profit financial reporting framework.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy
CPA Australia

Simon Grant FCA
Group Executive – Advocacy, Professional Standing and International Development
Chartered Accountants Australia and New Zealand

18 December 2020

Hans Hoogervorst
Chair
International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

Via online submission: www.ifrs.org

Dear Hans

Discussion Paper DP/2020/1: Business Combinations – Disclosures, Goodwill and impairment

As the representatives of over 200,000 professional accountants in Australia and New Zealand, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Discussion Paper (DP).

CPA Australia and CA ANZ welcome the International Accounting Standards Board (IASB) efforts to improve information provided in respect of business combinations, including proposed improvements to the disclosures about acquisitions and accounting for goodwill. Decisions about mergers and acquisitions can involve a significant investment of resources and time by the acquirer and are often key strategic decisions that seek to grow the business through acquiring another entity. Hence, investors and other stakeholders have a reasonable expectation to have available additional information to make management accountable for their decisions in relation to business combinations.

CA ANZ takes the opportunity to reference a research study undertaken by CA ANZ and the University of Melbourne. The report based on this study (see **Attachment B)** presents descriptive statistics on the level of recognition in financial reports of intangibles, goodwill, and relevant impairment over the period from 2005 to 2020. Analyses are presented for the World (119 countries, including most developed countries – which includes Australia and New Zealand), and separately for Australia and New Zealand, categorised by entity size, sector and time. In addition to the research study, CA ANZ has also undertaken a survey of a selection of CA ANZ members, directly addressing the matters raised in the DP (see **Attachment C**).

Improvements to accounting practices and disclosures around business combinations should enable investors to better understand the strategy for long-term value creation behind a business combination and enhance the predictive value of financial information. We provide our overall comments on the three main parts of the DP.

Part 1- Improving disclosures about acquisitions
We support the overall objectives of the disclosure proposals that have been developed to provide useful information around business combinations and their subsequent performance. However, to achieve the intended purpose of these disclosures our stakeholders have identified some practical challenges in respect of the proposed disclosures.

The proposals in the DP require preparers of financial statements to disclose the strategic rationale and objectives of the business combination, the performance metrics against which the business combinations are monitored and how well acquisitions are performing against these objectives in following years. We believe these proposed disclosures can contribute to improving the predictive value of information disclosed in financial statements by enabling users to better understand the rationale behind the information.

Our stakeholder outreach has identified some concerns and practical challenges associated with the proposed disclosures as follows:

- There is some overlap between the disclosures currently provided in Management Commentary (or equivalent) and these proposed disclosures.
- Although the proposed disclosures are intended for investors, such information will be available to other users including competitors, creating a risk of disclosing information that could be considered commercially sensitive.
- The subjectivity of forward-looking information can present auditing challenges.
- Measuring the performance of an acquired business that is fully integrated into the acquirer's business can sometimes be difficult. We suggest the IASB develops and provides additional requirements and guidance to address these concerns which are further elaborated in **Attachment A**.

Part 2- Goodwill impairment and amortisation
Globally, corporate regulators and the audit profession repeatedly identify shortcomings in the accounting for impairment (including impairment of goodwill) within financial statements, signalling a need for improvement. The CA ANZ and University of Melbourne research (refer **Attachment B**) indicates that there is potentially a systemic delay occurring in the recognition of impairment charges, at least in smaller listed companies worldwide. We appreciate the focus of the IASB is to develop financial reporting standards that satisfy the information needs of investors, but both regulators and the audit profession play an important role in ensuring that the quality of information included in financial statements is of the highest standard. The CA ANZ member survey (refer **Attachment C)** indicates that users of financial statements believe an impairment testing model can provide more useful information than amortisation. However, the complexity of the current approach to impairment testing may have a bearing on reporting quality when it comes to practically applying the model, particularly for smaller listed companies. Therefore, it is important to consider to what extent those benefits are actually being achieved.

As highlighted in the DP, we understand that the shortcomings identified with accounting for impairment could be attributed to management's optimistic estimates of future cashflows and the shielding from headroom (paragraph IN25). We agree with the observation in the DP that optimistic estimates of cashflows are best addressed by auditors and regulators and not by changing IFRS (paragraph IN26). However, if any shortcomings relate to the accounting requirements and guidance, it is incumbent on the IASB to address these matters. Accordingly, we believe the IASB should undertake a fundamental review of IAS 36 to establish the reasons for the concerns raised by stakeholders with the current impairment model and investigate the impacts of the current complexity of the model, particularly in relation to its application by smaller listed companies.

We appreciate the immense challenges faced by the IASB in its efforts to improve the subsequent accounting for acquired goodwill as articulated in the DP. Many proponents favour amortisation of goodwill (including some IASB members) as a practical solution to address some of the shortcomings associated with the current impairment approach. We acknowledge that whilst amortisation may provide a practical solution, we support the IASB's approach of seeking to address, at least initially, the concerns with and impediments to improving and retaining the current impairment model.

However, to address calls for improvements to the current impairment model, we suggest the IASB, whilst retaining the current impairment model in the short to medium term, commences a research project that:

- Explores and identifies the reasons for shortcomings in accounting for impairment identified by corporate regulators, the audit profession and other stakeholders.
- Undertakes a fundamental review of IAS 36 *Impairment*.

The IASB is proposing to simplify the current impairment model by introducing an indicator-based impairment model. We believe this could exacerbate the shortcomings discussed above and would not resolve the primary concern raised by stakeholders; i.e. there is often too little, and too late, recognition of goodwill impairment.

Part 3 – Other aspects

We do not support the IASB's preliminary view to present equity excluding goodwill on the balance sheet as we do not believe this will provide additional useful information. Such presentation could also confuse users.

Detailed comments and responses to the questions in the DP are set out in the Attachment. If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com. Questions regarding the CA ANZ and University of Melbourne research report and CA ANZ member survey results (**Attachments B and C**) should be directed to the latter.

Yours sincerely

Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy
CPA Australia

Simon Grant FCA
Group Executive – Advocacy, Professional Standing and International Development
Chartered Accountants Australia and New Zealand

Attachment

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?

Q1(a) We support the overall objective of the DP to seek improvements in the accounting for goodwill and disclosures about business combinations. However, we do not support the overall package of decisions developed by the IASB to achieve such improvements. We have mixed views about the various elements of this package of decisions and these views have been expressed in our responses to subsequent questions.

Q1 (b) We have considered and provided answers to the questions as mutually exclusive scenarios.

Question 2

Paragraphs 2.4–2.44 discuss the Board's preliminary view that it should add new disclosure requirements about the subsequent performance of an acquisition.

(a) Do you think those disclosure requirements would resolve the issue identified in paragraph 2.4—investors' need for better information on the subsequent performance of an acquisition? Why or why not?

(b) Do you agree with the disclosure proposals set out in (i)–(vi) below? Why or why not?

(i) A company should be required to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date (see paragraphs 2.8–2.12). Paragraph 7 of IFRS 8 Operating Segments discusses the term 'chief operating decision maker'.

(ii) A company should be required to disclose information about whether it is meeting those objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives (see paragraphs 2.13–2.40), rather than on metrics prescribed by the Board.

(iii) If management (CODM) does not monitor an acquisition, the company should be required to disclose that fact and explain why it does not do so. The Board should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20).

(iv) A company should be required to disclose the information in (ii) for as long as its management (CODM) continues to monitor the acquisition to see whether it is meeting its objectives (see paragraphs 2.41–2.44).

(v) If management (CODM) stops monitoring whether those objectives are being met before the end of the second full year after the year of acquisition, the company should be required to disclose that fact and the reasons why it has done so (see paragraphs 2.41–2.44).

(vi) If management (CODM) changes the metrics it uses to monitor whether the objectives of the acquisition are being met, the company should be required to disclose the new metrics and the reasons for the change (see paragraph 2.21).

(c) Do you agree that the information provided should be based on the information and the acquisitions a company's CODM reviews (see paragraphs 2.33–2.40)? Why or why not? Are you concerned that companies may not provide material information about acquisitions to investors if their disclosures are based on what the CODM

reviews? Are you concerned that the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions the CODM reviews?

(d) Could concerns about commercial sensitivity (see paragraphs 2.27–2.28) inhibit companies from disclosing information about management's (CODM's) objectives for an acquisition and about the metrics used to monitor whether those objectives are being met? Why or why not? Could commercial sensitivity be a valid reason for companies not to disclose some of that information when investors need it? Why or why not?

(e) Paragraphs 2.29–2.32 explain the Board's view that the information setting out management's (CODM's) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information. Instead, the Board considers the information would reflect management's (CODM's) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company's ability to disclose this information? What are those constraints and what effect could they have?

Q2(a) We broadly agree with the IASB's proposals to add new disclosure requirements to IFRS 3 and believe additional disclosures would enable users to assess management's ability to realise the expected benefits from an acquisition and assess whether an acquisition's subsequent performance indicates that management paid a reasonable price for the acquired business. Disclosure of information about whether management's objectives are being met would allow investors to assess performance and more effectively hold management to account for its decision to acquire the business. Such information also has the capacity to enable investors to assess management's stewardship of the company's economic resources.

However, as noted above and in our cover letter, some concerns have been raised by our stakeholders regarding the potential overlap between the proposed disclosures and disclosures made about management's stewardship in Management Commentary (or equivalent) accompanying financial statements. In Australia for example, corporate law requires the directors report to include an "operating and financial review" that includes an assessment of an entity's underlying drivers of performance, business strategies and prospects for future financial years. There is an expectation that this information will include:

- significant factors affecting income, including acquisitions
- significant changes in assets and liabilities as a result of major business acquisitions

Given the IASB's focus on reducing complexity in financial statements, we suggest any requirements in respect of disclosures around business combinations considers and accommodates, where possible, existing jurisdiction-specific statutory disclosure requirements.

Q2(b) Subject to our comments in response to Q2(a) above, we agree with the proposed disclosures discussed in Q2(b)(i) to (vi). However, our stakeholders have raised the following concerns that we trust the IASB will take into consideration in developing the proposals further:

- As mentioned in the DP, the metrics used to monitor acquisitions may change over time. With changes in the metrics, there is a risk that the disclosures which are based on the Chief Operating Decision Maker (CODM) review may not be comparable period to period. Such lack of comparability could have an impact on investor analysis of the information and subsequent decision making.
- In accordance with IFRS 8 *Operating Segments*, if an entity changes the structure of its internal organisation, which affects the composition of reportable segments, prior period information is restated; or where prior period information is not restated information on both the old and new reportable segments is required for the period in which the change is made. Although the DP states that if the metrics used to monitor the acquisition's performance change, this change should be explained and the revised metrics should be used, there is currently no guidance provided within these proposals regarding the presentation of comparative information if, and when, such changes occur.
- As stated previously, feedback received from our stakeholders suggests entities may be unwilling to fully disclose information about expected synergies, as it could be considered commercially sensitive information which may be detrimental to the objectives of the acquisition.
- The ability to audit the proposed disclosures would depend on management maintaining sufficient appropriate documentation for the acquisitions and systems that can track the performance of the acquired business. Whilst we appreciate this is not a matter directly relevant to the IASB, verifiability is an important enhancing qualitative characteristic that such disclosures should possess.
- Additionally, forward looking disclosures could give rise to challenges around auditability of such disclosures.

Q2(c) We agree with the Board's view that the information disclosed about performance of acquisitions should be based on the information that an entity's CODM reviews for internal

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

monitoring purposes. However, we foresee practical challenges with the volume of information where there are a substantial number of acquisitions over a number of years. We suggest the IASB develops and provides guidance that emphasises the need to exercise judgement around materiality and aggregation in respect of such disclosures.

Q2(d) As previously stated, commercial sensitivity remains a matter of concern. We appreciate that investors have a right to information about the rationale for an acquisition and subsequent performance of an entity through its business combinations. However, the same information is then also publicly available to others, including competitors who are not necessarily investors or stakeholders in the business. In Australia for example, the *Corporations Act 2001* provides protection by providing relief from the disclosure of information in a directors report that may be “unreasonable prejudicial” to a company.

To address this concern, we suggest clarifying that any disclosures should be presented in a financial context, i.e. the financial implications and subsequent financial performance arising from business combinations. We also suggest giving consideration to providing relief similar to that currently available under Australian corporate law.

Q2(e) We are not aware of any constraints in Australia and New Zealand that could affect a company’s ability to disclose the proposed information.

Question 3

Paragraphs 2.53–2.60 explain the Board’s preliminary view that it should develop, in addition to proposed new disclosure requirements, proposals to add disclosure objectives to provide information to help investors to understand:

- **the benefits that a company’s management expected from an acquisition when agreeing the price to acquire a business; and**
- **the extent to which an acquisition is meeting management’s (CODM’s) objectives for the acquisition.**

Do you agree with the Board’s preliminary view? Why or why not?

Q3 We agree with the Board’s preliminary view that it should develop disclosure objectives that underpin the proposed new disclosure requirements. These will assist both preparers and users better understand the purpose behind the disclosures and ensure disclosures are appropriately tailored to meet user information needs.

Question 4

Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 explain the Board's preliminary view that it should develop proposals:

- **to require a company to disclose:**
  - **a description of the synergies expected from combining the operations of the acquired business with the company's business;**
  - **when the synergies are expected to be realised;**
  - **the estimated amount or range of amounts of the synergies; and**
  - **the expected cost or range of costs to achieve those synergies; and**
- **to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.**

Do you agree with the Board's preliminary view? Why or why not?

Q4 As stated previously, we agree with the overall objective of providing disclosures in respect of business combinations that provide insights into the strategic rationale and objectives behind an entity's decision to undertake business combinations. We expect that such decisions will include considerations around expected synergies as a result of the business combination. Where such expected synergies are clearly determinable, their disclosure is likely to provide useful information to investors. However, our stakeholders have raised concerns in respect of the proposed disclosures of expected synergies:

- Quantifying the expected synergies may require significant judgment and estimation, thereby introducing a high level of subjectivity into preparers' disclosures. This may pose issues with user understanding and assuring such information, as presumably these estimates are to be based on reasonable and supportable assumptions.
- The IASB needs to consider to what extent these proposed disclosure requirements may impose an additional burden on preparers. Although management may have identified the synergistic benefits to be derived from an acquisition and quantified these for internal purposes, there may be additional effort involved in converting such internal information into disclosures suitable for inclusion in the financial statements that are subject to an audit. For example, management may have arrived at its own internal estimates around expected synergies arising from a business combination but may have to then adjust these estimates so as not to disclose commercially sensitive information.
- The proposed disclosures around expected synergies do not address what subsequent disclosures, if any, may be required should the expected synergies not come to fruition.

We agree with the IASB's proposal to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.

Question 5

IFRS 3 *Business Combinations* requires companies to provide, in the year of acquisition, pro forma information that shows the revenue and profit or loss of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period.

Paragraphs 2.82–2.87 explain the Board's preliminary view that it should retain the requirement for companies to prepare this pro forma information.

(a) Do you agree with the Board's preliminary view? Why or why not? Should the Board develop guidance for companies on how to prepare the proforma information? Why or why not?

(b) 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?

Q5(a) and (b) We agree with the IASB's proposals to retain the existing disclosures referred to above. We have not identified specific concerns with these existing disclosures.

Q5(c) We suggest the IASB retains the current disclosure requirements until the outcomes from the *General Presentation and Disclosures* project are known.

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?**

Q6(a) Stakeholder feedback indicates that the current approach of conducting an annual impairment test of goodwill is an area of accounting that creates a number of challenges for preparers, auditors and regulators alike. The IASB will be aware that corporate regulators around the world, as part of their financial reporting surveillance programs, often identify impairment as an area of financial reporting that requires improvement. Some stakeholders have expressed a view that moving to amortisation of goodwill eliminates many of the challenges currently faced with the impairment model. This preference for reintroduction of amortisation appears to be reflected in views expressed by some IASB members as well, with a significant proportion, although not a majority, having voted in favour of reintroducing amortisation. We expect these calls to reintroduce amortisation recognise the challenges associated with the current impairment model.

We note and understand the reasons discussed in the DP as to why the IASB moved away from an amortisation model to an impairment model, and its reluctance to move back to amortisation unless there are compelling reasons to do so. However, we do not agree with the Board's preliminary view that it is not feasible to make the current impairment test for cash generating units containing goodwill significantly more effective. That is:

- We believe that the Board needs to take into consideration the concerns raised by the investors, preparers, auditors, regulators and other stakeholders around timely recognition of impairment of goodwill and the cost and complexity of applying the current model. Whilst some stakeholders believe the issue is one that arises from the incorrect application of the current impairment model, others believe there are underlying flaws associated with the accounting requirements surrounding the impairment model. We suggest the IASB, along with other concerned stakeholders, undertakes a research project that explores the reasons for dissatisfaction with the current impairment model. If the research provides evidence that indicates that there are flaws with the current impairment model, the IASB will need to consider a new approach to address this matter. The CA ANZ and the University of Melbourne research report (**Attachment B**) and CA ANZ member survey extracts (**Attachment C**) may assist the IASB in informing the scope and direction of any research it may undertake.

- We believe there is a need for a fundamental review of IAS 36 *Impairment of Assets* (IAS 36) to address concerns we have highlighted under the above bullet point. The Australian Parliamentary Joint Committee on Corporations and Financial Services recently issued its final recommendations following an enquiry into the regulation of auditing in Australia. The recommendations highlight the complexity and challenges associated with applying the impairment model under IAS 36 and encourage the Australian Accounting Standards Board to continue to press the IASB to undertake a fundamental review of IAS 36. We intend to make a recommendation for a fundamental review of IAS 36 as part of our response to the IASB's 2020 Agenda Consultation, but take this opportunity to make our recommendation here also.

- Subject to our above comments, we suggest that the IASB develops and provides additional guidance and disclosures to support the current annual impairment model and IAS 36 more generally. Particularly, we believe the IASB needs to provide guidance on allocating goodwill to cash generating units and measurement of the recoverable value of cash generating units. We have identified gaps and provided recommendations for additional disclosures to support the current IAS 36 annual impairment model in the table included in our response to Q6(d) below.

Q6(b) Further to our response to Q6(a) above, it is appropriate for the IASB to retain the current annual impairment model whilst it explores concerns with the current model and potential alternatives.

One alternative that we believe the IASB should explore further is a hybrid approach which is briefly discussed in paragraph 3.100 of the DP. Under this approach an entity would carry out an annual impairment test of goodwill in the first few years of acquisition, followed by amortisation of goodwill in later years. Unimpaired goodwill presented on a statement of financial position for a number of years is unlikely to provide relevant information in later years, as it merely represents a historical premium that may have since been supported by internally generated goodwill. Ideally, externally acquired goodwill should be impaired in a timely manner. The reliability of such information that is adulterated by internally generated goodwill is questionable.

We acknowledge the challenge highlighted with this approach, i.e. the time period selected for the initial annual impairment approach and when to switch over to an amortisation approach. This approach will require professional judgement by both preparers and auditors, but we note the exercise of similar professional judgements exists with the current impairment approach. An advantage with this approach could be that preparers may need stronger evidence to support the retention of an impairment-only model in later years of the acquisition. We agree with the IASB's observation that additional guidance will be required to assist stakeholders apply such a hybrid approach.

We see two potential merits with the hybrid model. Firstly, it better addresses the wasting component within goodwill. Secondly, it can address the challenge of providing relevant and reliable information to users in later years by requiring the amortisation of goodwill that may have been contaminated by shielding from headroom and over-optimistic cashflow forecasts.

Q6(c) As well as the two reasons identified by the IASB, inadequate guidance in IAS 36 could be a contributory factor.

CHARTERED ACCOUNTANTS™
AUSTRALIA • NEW ZEALAND

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Q6(d) In addition to our above comments, we have identified in the table below, potential areas for improvement in additional requirements and disclosures in IAS 36:

	Current requirement	Suggested improvement
1	Goodwill to be allocated to CGUs that are expected to benefit from business combination (IAS 36, paragraph 80)	Consider linking this requirement with the proposed disclosure objectives of the business acquisition, enabling users to better understand the rationale for allocating goodwill to a particular CGU
2	Goodwill can be allocated to CGUs even if other assets and liabilities of the acquiree are not allocated to that particular CGU (IAS 36, paragraph 80)	This requirement has the potential to lead to goodwill allocation to a large number of CGUs, leading to shielding from headroom that may be significant. We suggest introducing a disclosure requirement that justifies the benefits that could arise through the particular approach taken by the acquirer
3	Allocate goodwill to CGUs that represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; (IAS 36, paragraph 80)	Suggest additional disclosures justifying the rationale behind the allocation decisions made by the entity when it allocates the goodwill for internal management purposes
4	Disclose discount rate The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of: (a) the time value of money; and (b) the risks specific to the asset for which the future cash flow - estimates have not been adjusted (IAS 36, paragraph 134 (d)(v))	Suggest additional disclosures justifying the discount rates used for value in use (VIU) calculations and how unsystematic risk and CGU specific risk are incorporated into the discount factors. We also suggest developing and providing additional examples and guidance to support such disclosures.
5	No existing disclosures	In a situation where there is no recognition of impairment of goodwill, explain reasons for that decision. That is, justify the results of annual impairment test.

6	VIU cash flow forecast–current model focuses on past experience/ external information/ financial budgets. (IAS 36, paragraph 134 (d))	We suggest that the focus of the cashflow forecast model should not only be on past experience but should also consider future expected performance that may impact the present circumstances.
7	No existing disclosures	We suggest additional disclosures relating to the potential impact on goodwill and CGUs that are exposed to climate related risks, including justification for not recognising impairment.

Question 7

Paragraphs 3.86–3.94 summarise the reasons for the Board's preliminary view that it should not reintroduce amortisation of goodwill and instead should retain the impairment-only model for the subsequent accounting for goodwill.

- **(a) Do you agree that the Board should not reintroduce amortisation of goodwill? Why or why not? (If the Board were to reintroduce amortisation, companies would still need to test whether goodwill is impaired.)**
- **(b) Has your view on amortisation of goodwill changed since 2004? What new evidence or arguments have emerged since 2004 to make you change your view, or to confirm the view you already had?**
- **(c) Would reintroducing amortisation resolve the main reasons for the concerns that companies do not recognise impairment losses on goodwill on a timely basis (see Question 6(c))? Why or why not?**
- **(d) Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not?**
- **(e) If amortisation were to be reintroduced, do you think companies would adjust or create new management performance measures to add back the amortization expense? (Management performance measures are defined in the Exposure Draft General Presentation and Disclosures.) Why or why not? Under the impairment-only model, are companies adding back impairment losses in their management performance measures? Why or why not?**
- **(f) If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?**

Q7(a) & (b) Our responses above to Q6 are relevant to this question. Feedback we have received from some stakeholders, including practitioner members, indicates there is support for re-introducing the amortisation model as a means of addressing practical challenges associated with impairment. Almost 9 of 10 respondents to the CA ANZ member survey (see **Attachment C**) highlight the importance of addressing complexity in the impairment model (in particular, estimating value in use). Views on the value of impairment testing are more equivocal, with around 69% of respondents suggesting impairment testing provides more useful information to users compared to amortisation of goodwill, with 31% either disagreeing or being uncertain of these benefits.

Where complexity impacts the quality of the information arising from associated practical challenges, it is less certain whether the benefits of the impairment approach are actually being realised. For example, the CA ANZ and University of Melbourne global research (see **Attachment B**) indicates, for small listed companies, that there is evidence consistent with the over valuation of goodwill, in addition to a lag between periods of poor performance (of the CGU associated with the goodwill) and the recognition of impairment under the current model.

There appears to be some mixed views on the topic globally, with some significant support for the reintroduction of the amortisation model (as reflected by the number of IASB members who supported retaining the model (8 members) as opposed to those who supported reintroducing amortisation (6 members).) To address this divergence of views, we suggest the IASB undertakes further research to understand what, if any, compelling reasons exist to re-introduce the amortisation model.

In our view, one of the impediments to re-introducing the amortisation model is the presumption that goodwill has indefinite life. Given the ever-changing and increasingly technological environment in which today's businesses operate, the presumption of indefinite life of goodwill is questionable. Looking across companies globally, the CA ANZ and University of Melbourne research (see **Attachment B**) looks at impairment frequency and magnitude, with the implication being that there is a write-down of goodwill to zero over a 15-year period on average. This outcome casts doubt on the validity of the presumption that goodwill has indefinite life. We recommend that a proposed alternative approach to amortisation might consider this benchmark.

Any technology inherently has a short life cycle due to continuous changes and improvements; which in turn is likely to have an impact on the lifespan of the businesses in which they are embedded. Inevitably, the lifespan of any goodwill associated with these businesses could also be affected. The IASB needs to take a pragmatic approach that takes into consideration these evolutionary attributes associated with global businesses. To solve these issues the IASB must be prepared to question and challenge the assumptions and definitions previously used in concluding that goodwill should be considered an indefinite life asset.

Q7(c) Stakeholder feedback indicates that reintroduction of amortisation will be a practical approach that is likely to be less expensive and less complex to comply with.

Q7(d) Yes. Currently, IFRS do not allow recognition of internally generated goodwill, except through the annual impairment test approach which could effectively lead to internally generated goodwill "replenishing" acquired goodwill.

Q7(e) We have no further comments.

Q7(f) As stated in the cover letter and in our response to Q7(a), whilst we appreciate the practicalities associated with amortisation of goodwill, we note the IASB's aversion to reintroducing amortisation unless there are compelling reasons to do so. Since we have not identified sufficiently compelling reasons, we recommend that the IASB undertakes more detailed research into the challenges associated with the current impairment model. If, however, the IASB decides to reintroduce amortisation, the useful life of goodwill could be based on CGU specific criteria that could include:

- The useful life of the CGU as a whole;
- The useful lives of the major identified tangible and intangible assets within the CGU; or
- The life of identifiable and/or quantifiable synergies and the periods over which such synergies are expected to deliver economic benefit, which should also be factored into in determining useful life of goodwill.

The above points may assist the IASB to develop a sound basis to determine the useful life of goodwill which reflects the pattern of economic consumption relating to goodwill assets, rather than adopting an arbitrary maximum number of years for amortisation of goodwill.

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?**

Q8 We do not support the Board's proposal to present the total amount of equity excluding goodwill on the balance sheet as this proposal does not provide additional relevant and useful information to users. We are concerned that such a presentation has the potential to confuse 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?**

Q9 For the reasons stated above and in our cover letter, we do not support the development of proposals to remove the requirement to perform an annual impairment test of goodwill. We are also concerned that relaxing the annual impairment test will exacerbate the current concerns raised by stakeholders of inadequate write-downs of goodwill through the annual impairment model.

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?**

Q10(a) We support the Board's view on simplifying the Value in Use (VIU) calculation. We see benefits in allowing entities to use post-tax cash flows and post-tax discount rates. Feedback we have received indicates these measures are widely used in practice. However, we foresee auditability challenges in allowing cashflows from uncommitted restructuring in VIU calculations, particularly where management estimates are overly optimistic. This could lead to further delays in recognising impairment of goodwill.

Q10(b) Please see our responses to Q6 above.

Question 11

Paragraph 4.56 summarises the Board's preliminary view that it should not further simplify the impairment test.

- **(a) Should the Board develop any of the simplifications summarised in paragraph 4.55? If so, which simplifications and why? If not, why not?**
- **(b) Can you suggest other ways of reducing the cost and complexity of performing the impairment test for goodwill, without making the information provided less useful to investors?**

Q11(a) Please see our responses to Q6 above.

Q11(b) We have no further comments.

Question 12

Paragraphs 5.4–5.27 explain the Board's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill.

- **(a) Do you agree that the Board should not develop such a proposal? Why or why not?**
- **(b) If you do not agree, which of the approaches discussed in paragraph 5.18 should the Board pursue, and why? Would such a change mean that investors would no longer receive useful information? Why or why not? How would this reduce complexity and reduce costs? Which costs would be reduced?**
- **(c) Would your view change if amortisation of goodwill were to be reintroduced? Why or why not?**

Q12(a) & (b) We support the board's preliminary view to not allow some intangible assets to be included in goodwill. Recognising and presenting identifiable and reliably measurable intangible assets separately from the goodwill provides more useful information. Including such intangible assets within goodwill can also contribute to the challenges associated with the shielding from headroom effect.

Q12(c) Our response to question 12(a) remains unchanged irrespective of whether an amortisation requirement is re-introduced.

Question 13

IFRS 3 is converged in many respects with US generally accepted accounting principles (US GAAP). For example, in accordance with both IFRS 3 and US GAAP for public companies, companies do not amortise goodwill. Paragraphs 6.2–6.13 summarise an Invitation to Comment issued by the US Financial Accounting Standards Board (FASB).

Do your answers to any of the questions in this Discussion Paper depend on whether the outcome is consistent with US GAAP as it exists today, or as it may be after the FASB's current work? If so, which answers would change and why?

Q13 Our responses to the questions in this DP do not depend on the outcome of the US Financial Accounting Standards Board (FASB) project on the same topic. However, we note the relief given by the FASB to private and not-for- profit sector entities from the annual impairment requirement, allowing them to adopt an amortisation model.

Question 14

Do you have any other comments on the Board's preliminary views presented in this Discussion paper?

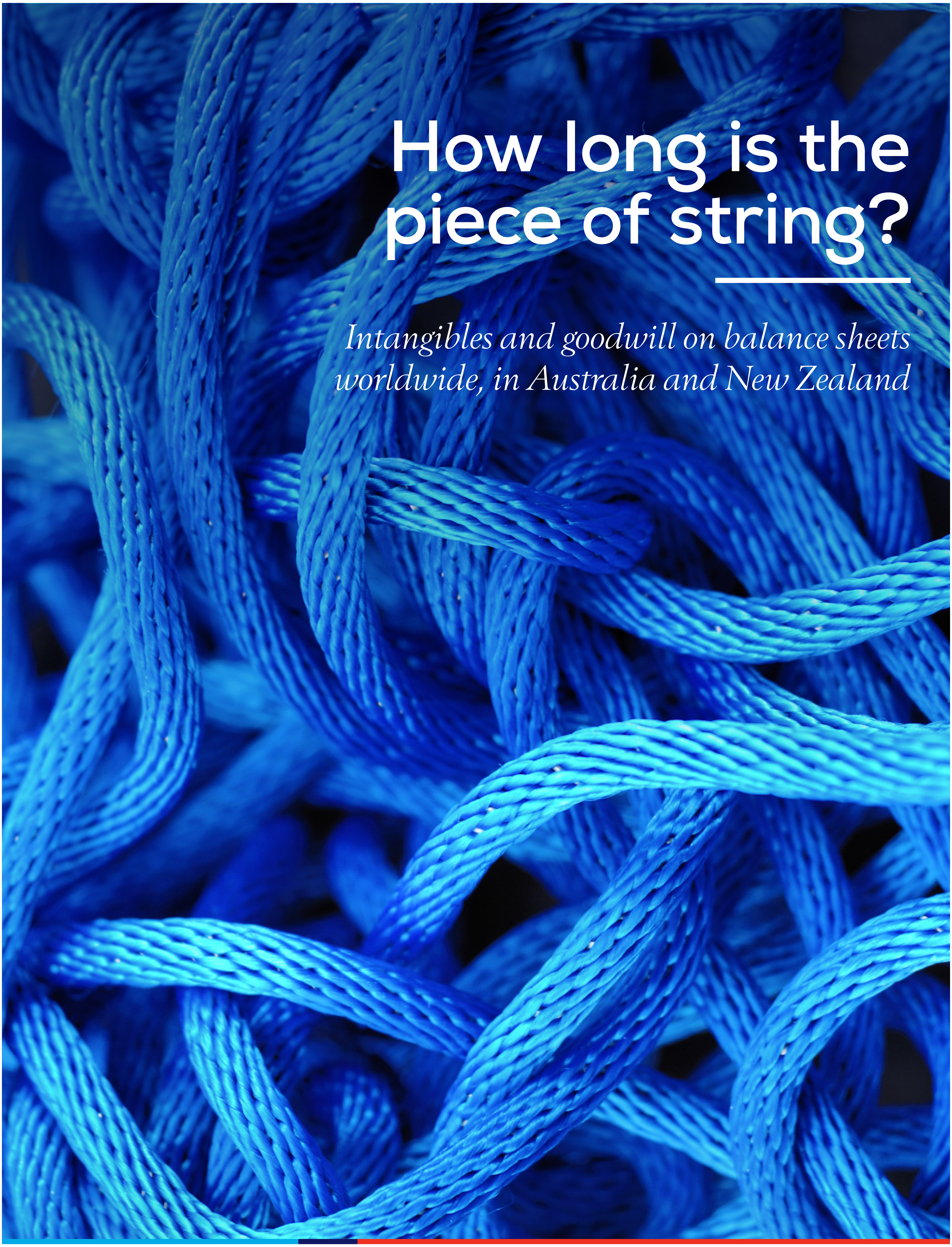
We have no further comments.

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Attachment B



How long is the piece of string?

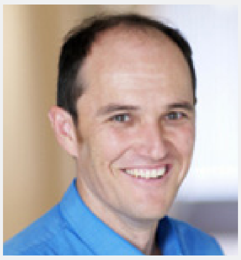
Intangibles and goodwill on balance sheets worldwide, in Australia and New Zealand

THE UNIVERSITY OF MELBOURNE

CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

DIFFERENCE MAKERS™

About the authors



Prof Matt Pinnuck
Head of Department, Accounting

Matt Pinnuck is Professor of Financial Accounting and Head of Department of Accounting. Matt teaches financial accounting in both undergraduate and postgraduate courses.

Matt's research interest is in information economics in the fields of both financial accounting, finance and auditing and his main teaching areas are in financial accounting and security valuation. Matt worked for several years in the audit division of KPMG before completing a PhD at the University of Melbourne.

Amir Ghandar FCA
Reporting and Assurance Leader

Amir Ghandar is Chartered Accountants ANZ's Reporting and Assurance Leader. After starting his career in a country accounting firm in Northern New South Wales, Amir trained at top tier professional services firms including EY in Australia and London gaining extensive experience in reporting, assurance and regulation. In his role, Amir engages with Chartered Accountants and stakeholders to help shape the profession's vision on key policy decisions, represent the profession in major forums and reimagine how reporting and auditing can deliver on society's evolving needs.

Previously, as Deputy Director, Public Policy & Regulation at the International Federation of Accountants (IFAC), Amir drove the public policy and advocacy strategy for the global profession on issues including reporting, assurance, and governance. He grew the profession's influence and networks at the top level of international policy making, collaborating with the G20 and Organisation for Economic Co-operation and Development (OECD) to carve out the profession's role in improving transparency, tackling corruption and building public trust.

2113-DEC-20

Contents

In summary

This brief report presents descriptive statistics on the level of recognition in financial reports of intangibles, goodwill, and relevant impairment over the period from 2010 to 2020. Analyses is presented for Australia, New Zealand and the World[1] categorized by firm size, sector and time.

The analyses presented is pertinent to questions raised by the International Accounting Standards Board (IASB) in its recent Discussion Paper, *Business Combinations – Disclosures, Goodwill and Impairment,* and to broader discussions about how we account for goodwill, intangibles and value creation in general. According to the IASB in 2020, $8 trillion in goodwill was recognized on company balance sheets world-wide (our analysis shows the comparable figure in Australia: $111b NZ: $5.54b).

Overall, our analysis reveals:

- **Over the last two decades, both intangibles and goodwill on balance sheets as a percentage of assets have been increasing,** and the percentage of firms recognizing goodwill and intangibles has been increasing.
- **A skewed distribution in the amount of goodwill and intangibles** recognized as a percentage of assets. While a significant portion of firms recognize some goodwill and intangibles (on average 3% of assets), a significant minority recognize a very large amount.
- **Approximately 20% of firms impair goodwill every year** and the average magnitude of the impairment write-down is 30%.
- **The impairment frequency and magnitude implies the effective close to complete write-down of goodwill to a zero value over a 15-year period.** Any alternative approach to amortisation that is currently being considered being re-introduced by the IASB should consider this benchmark.
- **For large companies there is no evidence of goodwill being overvalued.**
- **For some small companies there is evidence consistent with the over valuation of goodwill,** in addition to a lag between periods of poor performance prior to recognising impairment under the current model.
- **For small companies across the world there is some evidence consistent with overvaluation of intangibles.** There is some evidence for Australian large companies of overvaluation of intangibles.
- **The most significant issue associated with the measurement of goodwill is the level of uncertainty** associated with forecasting future benefits.

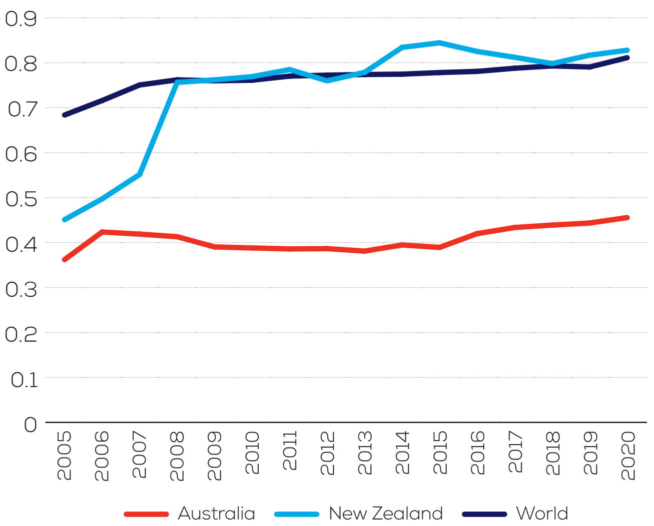
These findings emphasise the importance of the current efforts to revisit accounting for goodwill and intangibles.

1 For purposes of analysis we use the Standard and Poor's Compustat Global Database which covers 119 countries and includes most developed countries. We exclude the United States as they follow FASB standards. For each country the population includes the majority of listed public companies over the period from 2010 to 2020

Intangibles

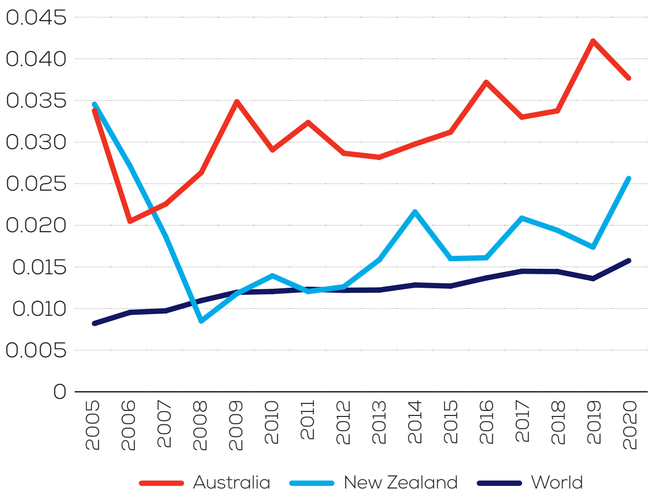
- A significant percentage of firms recognize some intangibles assets: 41% in Australia; 81% in NZ and 78% in World. The lower percentage in Australia is mainly driven by low levels of recognition of intangibles by small mining companies prevalent on the Australian stock exchange. See Table 1.

Percent of Firms Recording Intangibles



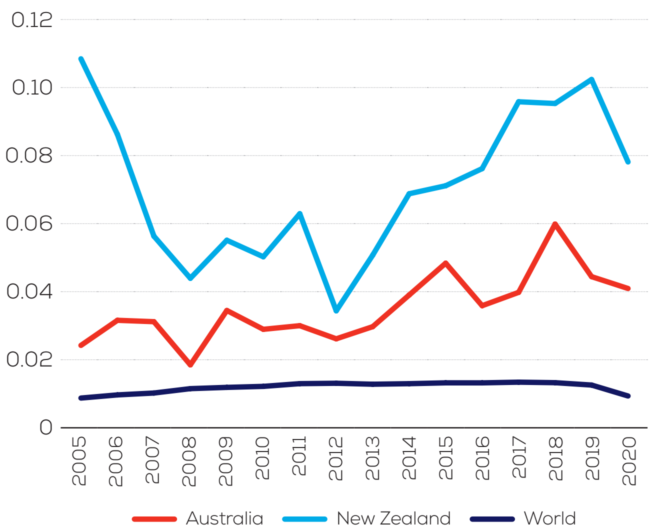
- Across time the percent of firms recognizing intangibles has increased marginally.
- However, the amount of intangibles that is recognized, measured as a percent of total assets, for the *typical* (median) firm is relatively low: 0.037 in Australia; 0.0258 in NZ and 0.0127 in World. See Table 1.
- The distribution is highly skewed with a significant *minority* of firms recognizing a very large amount of intangible assets. 10% of firms recognize an amount of intangibles equal to or greater than the following as a percent of total assets: 0.37 Australia; 0.25 NZ and 0.15 World. See Table 2. See Table 10 for a list of the top ten companies with the greatest intangibles.
- A partition by size shows that some small companies have a very significant investment in intangibles: 10% of small firms recognize an amount of intangibles equal to or greater than the following as a percent of total assets: 0.58 Australia; 0.29 NZ and 0.18 See Table 2.
- The amount of intangibles recognized by this partition of small firms is significantly greater for Australia, compared to other countries.
- Table 3 reports the percentage of firms that have recognized intangibles by sector: Main conclusions:
  - For the world, all sectors have a relatively high and similar percentage of firms recognizing intangibles (approx. 80%). Energy, Mining. Financials and Utilities are the sectors with lowest percentage. See Table 3
  - Across all sectors, Australia, has a smaller percentage of firms recognizing intangibles. See Table 3
  - Technology Communication and the Healthcare Sector are the sectors with the highest level of investment in intangibles. See Table 4
  - Technology Communication and the Healthcare Sector are the also sectors with the highest level of investment in goodwill. See Table 4
  - Across all sectors Australia has substantially higher level of investment in intangibles than other countries
- Across time the level of investment in recognized intangibles has increased, marginally, for all countries, with the rate of increase being more significant for Australia.

Intangibles as Percent of Total Assets Large Firms



- Across time the level of investment in recognized intangibles by small firms has increased reasonably significantly in Australia but only marginally in other countries.

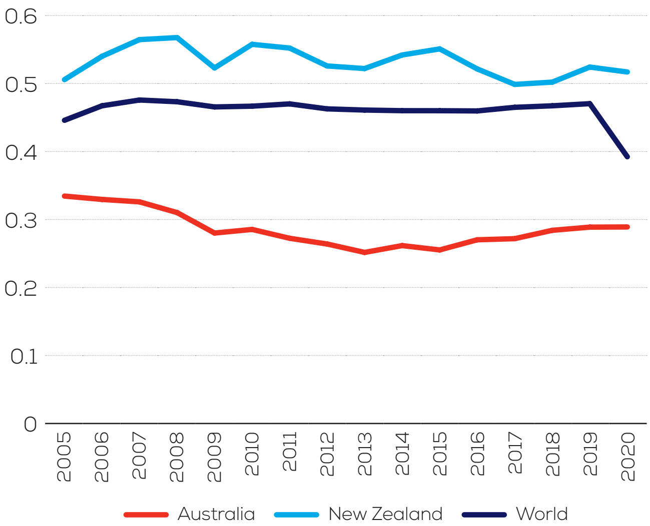
Intangibles as Percent of Total Assets Small Firms



Goodwill

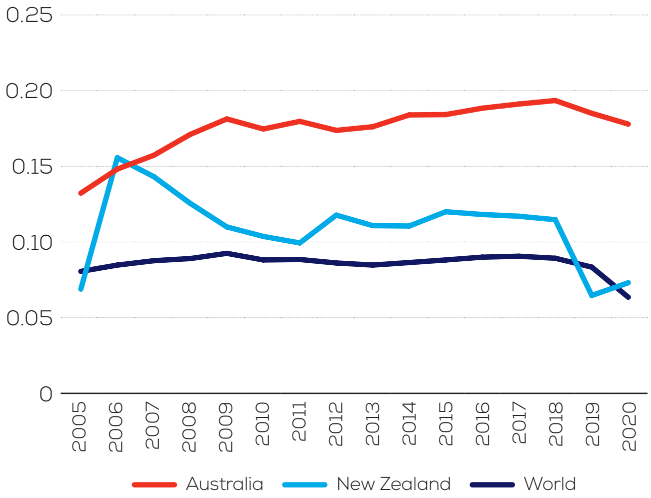
- A significant percentage of firms recognize goodwill: 27% Australia; 52% NZ and 46% World.

Percent firms recording goodwill



- The amount of recognized investment in goodwill for the median firm, measured as a percent of total assets is significant: 0.15 Australia; 0.12 NZ and 0.03 World. See Table 1.
- The amount of goodwill recognized by Australia is substantially greater than most other countries.
- The distribution is highly skewed with a significant *minority* of firms recognizing a very large amount of goodwill. Specifically, 25 percent of firms recognize an amount of goodwill equal to or greater than the following as a percent of total assets: 0.34 Australia; 0.29 NZ and 0.15 World. See Table 2.
- In Australia, 10 percent of small firms have recognized goodwill that represent equal to or more than 53% of total assets.
- The IASB's Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* documents at the start of the paper that the typical firm has recorded goodwill equal to 3% of total assets. This is the same as our result for the median firms. However, we have further analysed to reveal a significant skewness in the level of goodwill that is recorded by a small minority of firms.
- Across time the level of investment in goodwill, as a percent of total assets, has remained remarkably constant and about 20 percent for Australia and 10 percent World.
- There is some evidence for a sub-sample of large firms in Australia of an increase in goodwill over time.

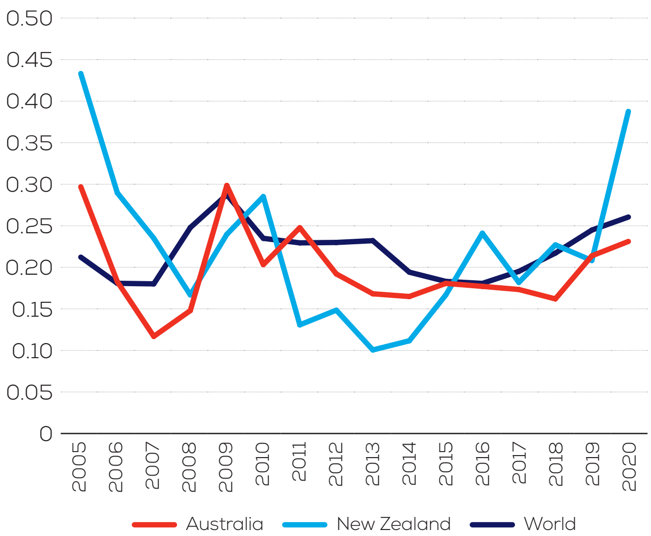
Goodwill as Percent of Assets Large Firms (Mean)



Frequency and Level of Impairments of Goodwill

- Table 7 reports that approximately 20% of firms impair goodwill each year. This is remarkably similar across countries and across size categories.
- The frequency of impairment has remained remarkably constant across time.

Percent of Firms Impairing Goodwill Across Time



- Table 8 reports the percentage magnitude of the impairment write-down of goodwill. The mean magnitude is significant being: 37% (Australia); 30% (NZ) and 30% (World)
- The IASB Board's Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* wants feedback on whether the impairment test should be replaced by amortisation—the gradual write-down of goodwill over time.

- The frequency of the write-down (once every five years) together with the magnitude (30%) implies goodwill is effectively being amortized over a 15 to 20 year window. Therefore, the current impairment approach has a greater implicit amortization rate than say a formal explicit rule of amortization over 20 years.
- The magnitude of the write-downs are severely skewed with a significant minority writing down an extreme amount: 25 percent of firms have a percentage write-down equal to or greater than the following: 52% Australia; 43% NZ and 39% World. See Table 8.
- The skewness suggests that some firms wait and defer write-downs until bad news accumulates to a severe level before taking a write-down.
- The countries and firm size categories with the greatest write-downs are also the countries and firm size with the greatest level of goodwill possibly suggesting it was over-valued.

Is the recorded amount of intangibles and goodwill overvalued?

- We have documented that a significant minority of firms recognize a substantial amount of intangibles and goodwill. Furthermore, for these firms the magnitude of the write-down when it occurs is substantial. Is the recorded value of goodwill and intangibles fair or overvalued?
- To examine this, we match those firms with a high level of intangibles to a benchmark firm with a low-level of intangibles in the same industry and the same size. We then compare the current and future ROA of high intangible firms to the benchmark. If assets are correctly valued, then the ROA should be similar. If the assets are overstated, then the ROA of the intangible-intensive firms will be lower. The results for intangible (goodwill) intensive firms are reported in Table 5 (Table 6) and the conclusion are as follows:
  - *Intangibles.* Across the world there is little difference in ROA for large firms between intangible intensive firms (3.25%) and the benchmark (3.20%).
  - *Intangibles.* In Australia and across the world for small companies there is evidence of a lower ROA for small intangible intensive firms (1.99%) compared to the benchmark (2.89%). This is consistent with the intangible assets being over-valued. See Table 5.
  - *Intangibles.* In Australia intangible intensive large firms (2.82%) have a lower ROA than the benchmark (4.33%). See Table 5.
  - *Goodwill.* Across the world and Australia for large companies there is no evidence of a difference in ROA between firms with high goodwill and a benchmark.
  - *Goodwill.* Across the world and Australia for small companies there is evidence of lower ROA for firms with high goodwill (1.92%) compared to a benchmark (2.88%). This could be consistent with small firms with a significant amount of goodwill being over-valued. See Table 6.
- Table 9 provides some evidence that those firms that impair have a history of performance, in the years prior to the write-down, that are lower than other firms that do not impair.

Appendix 1: Results tables

Table 1: The Level of Investment in Intangibles

All Firms	Percentage of Firms*			Level of Investment as Percent of Total Assets					
				Intangibles		Goodwill		Intangibles & Goodwill	
Country	Intangibles	Goodwill	Both	Median	Mean	Median	Mean	Median	Mean
AUS	41.28%	26.91%	44.74%	0.0373	0.1220	0.1502	0.2087	0.1525	0.2382
NZL	81.13%	52.53%	84.25%	0.0258	0.0835	0.1219	0.1894	0.0911	0.1985
WORLD	74.23%	36.66%	77.86%	0.0097	0.0459	0.0258	0.0863	0.0179	0.0844
WOR_Developed	78.39%	46.30%	82.07%	0.0127	0.0559	0.0388	0.1066	0.0265	0.1135

Categorized by Size of Firm					Intangibles		Goodwill	
Country	Size	Intangibles	Goodwill	Both	Median	Mean	Median	Mean
AUS	Large	72.22%	63.11%	76.07%	0.0329	0.0875	0.1163	0.1844
NZL	Large	92.51%	65.17%	92.51%	0.0164	0.0503	0.0496	0.1066
WORLD	Large	85.11%	57.44%	88.75%	0.0082	0.0403	0.0141	0.0648
WOR_Developed	Large	83.14%	64.34%	86.61%	0.0133	0.0463	0.0235	0.0882
AUS	Medium	47.81%	33.72%	53.87%	0.0288	0.0990	0.1701	0.2267
NZL	Medium	85.29%	64.71%	91.18%	0.0191	0.0766	0.1133	0.1960
WORLD	Medium	79.36%	41.17%	83.05%	0.0088	0.0394	0.0270	0.0873
WOR_Developed	Medium	81.91%	51.87%	85.52%	0.0118	0.0472	0.0386	0.1068
AUS	Small	24.87%	8.32%	26.58%	0.0741	0.1893	0.2042	0.2417
NZL	Small	74.07%	40.09%	76.75%	0.0382	0.1049	0.2274	0.2364
WORLD	Small	66.78%	25.64%	70.37%	0.0113	0.0534	0.0401	0.1047
WOR_Developed	Small	74.36%	35.74%	78.18%	0.0131	0.0659	0.0495	0.1195

* "This is the percentage of firms that recognize goodwill".

Table 2: Distribution of Level of Investment in Intangibles as a Percent of Total Assets

P90 (P75, P25, etc) is the investment by the firm at the 90th (75th, 25th) percentile of the distribution when firms are ranked by level of investment in intangibles and goodwill as a percent of total assets.

Intangibles

Country	P25	Median	Mean	P75	P90
Australia	0.0061	0.0373	0.1220	0.1575	0.3740
NZ	0.0074	0.0258	0.0835	0.0790	0.2503
World	0.0039	0.0127	0.0559	0.0468	0.1511

Firms Classified by Size

Country	Size	P25	Median	Mean	P75	P90
Australia	Large	0.0069	0.0329	0.0875	0.1025	0.2275
NZ	Large	0.0053	0.0164	0.0503	0.0522	0.1546
World	Large	0.0034	0.0133	0.0463	0.0465	0.1314
Australia	Med	0.0044	0.0288	0.0990	0.1356	0.2968
NZ	Med	0.0070	0.0191	0.0766	0.0556	0.2680
World	Med	0.0039	0.0118	0.0472	0.0418	0.1289
Australia	Small	0.0081	0.0741	0.1893	0.2961	0.5831
NZ	Small	0.0109	0.0382	0.1049	0.1275	0.2961
World	Small	0.0040	0.0131	0.0659	0.0512	0.1821

Goodwill

Country	P25	Median	Mean	P75	P90
Australia	0.0456	0.1502	0.2087	0.3375	0.4894
NZ	0.0283	0.1219	0.1894	0.2998	0.4742
World	0.0075	0.0388	0.1066	0.1520	0.3233

Firms Classified by Size

Country	Size	P25	Median	Mean	P75	P90
Australia	Large	0.0305	0.1163	0.1844	0.2953	0.4620
NZ	Large	0.0141	0.0496	0.1066	0.1272	0.2713
World	Large	0.0041	0.0235	0.0882	0.1187	0.2878
Australia	Med	0.0524	0.1701	0.2267	0.3738	0.5035
NZ	Med	0.0232	0.1133	0.1960	0.2983	0.5078
World	Med	0.0072	0.0386	0.1068	0.1572	0.3207
Australia	Small	0.0752	0.2042	0.2417	0.3655	0.5259
NZ	Small	0.0850	0.2274	0.2364	0.3552	0.4763
World	Small	0.0120	0.0495	0.1195	0.1705	0.3502

Table 3: Percentage of Firms Recording Intangibles by Sector

	Australia				NZ				World			
Sector	Industry Proportion	Intangibles	Goodwill	Both	Industry Proportion	Intangibles	Goodwill	Both	Industry Proportion	Intangibles	Goodwill	Both
Energy	0.11	19.27%	9.10%	22.90%	0.02	61.82%	7.27%	61.82%	0.03	61.77%	35.23%	68.83%
Materials/ Mining	0.35	16.99%	8.15%	19.98%	0.08	47.66%	51.87%	67.76%	0.09	79.68%	41.49%	84.05%
Industrials	0.10	62.91%	59.26%	78.19%	0.18	65.26%	56.43%	78.11%	0.22	80.26%	49.36%	87.24%
Consumer Discretionary	0.08	68.73%	60.77%	81.90%	0.18	64.33%	55.31%	79.16%	0.17	78.09%	47.00%	84.85%
Consumer Staples	0.04	66.36%	55.96%	75.15%	0.17	68.58%	58.41%	78.32%	0.07	82.73%	52.04%	87.57%
Health Care	0.09	57.17%	31.41%	64.37%	0.10	72.80%	36.40%	79.69%	0.06	80.65%	49.14%	85.43%
Financials	0.06	50.46%	43.78%	58.71%	0.07	51.12%	42.14%	59.55%	0.10	55.56%	36.76%	63.57%
Information Technology	0.09	58.42%	44.00%	67.97%	0.09	81.57%	52.94%	85.49%	0.14	82.80%	53.14%	89.52%
Communication Services	0.04	69.56%	50.41%	74.68%	0.03	68.54%	71.91%	91.01%	0.05	87.56%	64.79%	92.16%
Utilities	0.02	60.65%	37.32%	65.11%	0.07	78.11%	56.22%	88.56%	0.02	71.88%	50.79%	78.45%
Real Estate	0.02	45.87%	26.35%	53.97%	0.00	30.00%	10.00%	30.00%	0.05	44.08%	26.29%	53.26%

Industry proportion is the percent of the number of firms in the industry as a percent of the total number of firms

Table 4: Level of Investment in Intangibles and Goodwill as Percent of Total Assets

	Intangibles						Goodwill					
	Australia		NZ		World		Aus		NZ		World	
GIC Sectors	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean
Energy	0.0206	0.1250	0.0032	0.0287	0.0233	0.1446	0.0333	0.1139	0.0601	0.0600	0.0315	0.0855
Materials/Mining	0.0087	0.1165	0.0493	0.1200	0.0080	0.0575	0.0660	0.1248	0.0992	0.1225	0.0233	0.0687
Industrials	0.0246	0.0848	0.0203	0.0566	0.0085	0.0311	0.1441	0.2050	0.1601	0.1821	0.0396	0.1036
Consumer Discretionary	0.0671	0.1384	0.0258	0.0671	0.0105	0.0432	0.1344	0.1973	0.0843	0.1832	0.0345	0.1033
Consumer Staples	0.0376	0.0905	0.0233	0.0972	0.0118	0.0411	0.0716	0.1074	0.0373	0.1349	0.0368	0.0857
Health Care	0.0951	0.1885	0.0131	0.0871	0.0271	0.0873	0.2167	0.2881	0.0847	0.1824	0.1007	0.1597
Financials	0.0100	0.0711	0.0088	0.0545	0.0023	0.0154	0.0398	0.1121	0.0235	0.0731	0.0076	0.0419
Information Technology	0.0965	0.1766	0.1164	0.1598	0.0161	0.0538	0.2369	0.2725	0.2274	0.2287	0.0848	0.1713
Communication Services	0.1445	0.2167	0.0429	0.1298	0.0505	0.1078	0.2386	0.2594	0.1967	0.2881	0.1056	0.1684
Utilities	0.0920	0.1736	0.0149	0.0421	0.0150	0.0571	0.0921	0.1211	0.0335	0.0643	0.0282	0.0553
Real Estate	0.0062	0.0605	0.8401	0.8013	0.0020	0.0225	0.0717	0.1341	0.0769	0.0769	0.0072	0.0421

Table 5: Current and Future Performance of Firms Categorized by Level of Investment in Intangibles

Size	Intangible Investment Category	Amount	AveROA+3	AveCFO+3/TA	ROA	F1_ROA	F2_ROA	F3_ROA
Australia								
Large	High Intangibles	0.3532	0.0161	0.0680	0.0282	0.0241	0.0294	0.0281
Large	Low Intangibles	0.0426	0.0422	0.0941	0.0433	0.0434	0.0385	0.0413
Medium	High Intangibles	0.3230	-0.0132	0.0385	-0.0099	-0.0099	-0.0127	0.0039
Medium	Low Intangibles	0.0163	0.0024	0.0620	0.0165	0.0024	0.0027	0.0114
Small	High Intangibles	0.4270	-0.3868	-0.2360	-0.3622	-0.3451	-0.3007	-0.2349
Small	Low Intangibles	0.0206	-0.3303	-0.1805	-0.3977	-0.3590	-0.2420	-0.1657
New Zealand								
Large	High Intangibles	0.2879	0.0875	0.1732	0.0815	0.0953	0.0857	0.0685
Large	Low Intangibles	0.0344	0.0359	0.1087	0.0602	0.0447	0.0252	0.0427
Medium	High Intangibles	0.2955	0.0665	0.1185	0.0619	0.0592	0.0515	0.0549
Medium	Low Intangibles	0.0155	0.0515	0.0835	0.0518	0.0495	0.0493	0.0576
Small	High Intangibles	0.2681	-0.0185	0.0357	-0.1444	-0.1507	-0.0598	0.0011
Small	Low Intangibles	0.0184	-0.0100	0.0458	-0.0201	-0.0019	0.0509	0.0396
World								
Large	High Intangibles	0.0844	0.0310	0.0771	0.0325	0.0307	0.0304	0.0304
Large	Low Intangibles	0.0075	0.0302	0.0699	0.0320	0.0307	0.0306	0.0302
Medium	High Intangibles	0.0878	0.0289	0.0701	0.0317	0.0296	0.0303	0.0303
Medium	Low Intangibles	0.0068	0.0328	0.0669	0.0355	0.0340	0.0331	0.0324
Small	High Intangibles	0.0972	0.0222	0.0574	0.0199	0.0210	0.0246	0.0272
Small	Low Intangibles	0.0070	0.0286	0.0504	0.0289	0.0290	0.0303	0.0304

The Table reports the current and future performance of firms with high *(High Intangibles)* and low *(Low Intangibles)* level of investment in intangibles matched on industry and size. Amount is intangibles as a percent of total assets. ROA is the retun on assets in the year of portfolio formation. *AveROA+3* is the average return on assets across the three years following the year of portfolio formation. *AveCFO+3/TA* is the average cash flow from operations scaled by total assets across the three years after portfolio formation. *F1_ROA* is the return on assets in the year following portfolio formation. *F2_ROA* is the return on assets in the second year following portfolio formation.

Table 6: Current and Future Performance of Firms Categorized by Level of Investment in Goodwill

Australia								
	Goodwill Amount							
Size	Category	Amount	AveROA+3	AveCFO+3/TA	ROA	ROA+1	ROA+2	ROA+3
Large	High Goodwill	0.4898	0.0389	0.1035	0.0481	0.0456	0.0410	0.0387
Large	Low Goodwill	0.1356	0.0406	0.0817	0.0458	0.0454	0.0409	0.0335
Medium	High Goodwill	0.4789	0.0364	0.0862	0.0445	0.0407	0.0389	0.0425
Medium	Low Goodwill	0.1424	0.0209	0.0636	0.0376	0.0277	0.0275	0.0202
Small	High Goodwill	0.5090	-0.2569	-0.0960	-0.2470	-0.2916	-0.1276	-0.0508
Small	Low Goodwill	0.1569	-0.0832	-0.0257	-0.1414	-0.1400	-0.0766	-0.0775
New Zealand								
Large	High Goodwill	0.7418	0.0367	0.1349	0.0733	0.0733	0.0681	-0.0408
Large	Low Goodwill	0.0582	0.1080	0.1935	0.0845	0.0845	0.1021	0.1089
Medium	High Goodwill	0.4823	0.0719	0.1298	0.0817	0.0738	0.0705	0.0671
Medium	Low Goodwill	0.0600	0.0582	0.0878	0.0504	0.0543	0.0465	0.0436
Small	High Goodwill	0.4232	0.0737	0.1439	0.0515	0.0723	0.0666	0.0760
Small	Low Goodwill	0.1878	0.0485	0.0619	0.0303	0.0452	0.0454	0.0368
World								
Large	High Goodwill	0.1930	0.0326	0.0804	0.0362	0.0338	0.0329	0.0321
Large	Low Goodwill	0.0169	0.0335	0.0794	0.0360	0.0338	0.0337	0.0323
Medium	High Goodwill	0.2266	0.0298	0.0687	0.0359	0.0329	0.0319	0.0324
Medium	Low Goodwill	0.0192	0.0358	0.0729	0.0394	0.0377	0.0361	0.0349
Small	High Goodwill	0.2305	0.0134	0.0468	0.0192	0.0183	0.0216	0.0238
Small	Low Goodwill	0.0203	0.0247	0.0565	0.0288	0.0272	0.0281	0.0300

Table 7: Estimated Percentage of Firms Impairing Goodwill Each Year

Country	Size	Goodwill Investment	Percentage
Australia	Large	0.1956	20.21%
Australia	Medium	0.2457	17.39%
Australia	Small	0.2565	20.82%
NZ	Large	0.1215	28.00%
NZ	Medium	0.2624	14.43%
NZ	Small	0.2618	19.05%
World	Large	0.1319	19.50%
World	Medium	0.1407	17.18%
World	Small	0.1521	24.63%

Table 8: Distribution of the Percentage Amount of Goodwill that is Impaired

Country	Mean	P90	P75	Median	P25	P10
Australia	-36.94%	-68.65%	-51.75%	-31.84%	-20.36%	-13.24%
NZL	-30.47%	-62.05%	-43.39%	-23.24%	-15.94%	-12.84%
World	-29.61%	-59.56%	-39.08%	-22.62%	-14.47%	-11.56%

Size	Mean	P90	P75	Median	P25	P10
Australia						
Large	-31.39%	-63.61%	-40.65%	-26.27%	-16.47%	-12.08%
Medium	-38.06%	-69.89%	-53.28%	-31.92%	-21.72%	-14.49%
Small	-44.77%	-69.15%	-57.11%	-44.96%	-29.73%	-19.18%
NZL						
Large	-20.41%	-34.47%	-25.26%	-18.16%	-12.71%	-10.91%
Medium	-31.04%	-62.89%	-36.47%	-26.13%	-16.72%	-14.66%
Small	-32.69%	-62.05%	-48.59%	-28.17%	-14.95%	-12.84%
World						
Large	-25.75%	-49.15%	-32.70%	-18.92%	-13.37%	-11.18%
Medium	-29.05%	-58.90%	-37.91%	-21.94%	-14.60%	-11.79%
Small	-31.15%	-62.74%	-41.47%	-24.58%	-15.03%	-11.68%

The Table shows for those firms that have impaired goodwill the percentile distribution of the amount of the impairment. Firms are ranked from greatest to lowest impairment as a percentage of total goodwill. P90 is the 90th largest impairment. P75 is the 75th largest impairment. P25 (P10) is the 25th (10th) smallest impairment.

"Identification of firms with impaired goodwill is based on identifying those firms with a decrease in goodwill greater than 10%. To the extent the goodwill has decreased due to divestitures then this may be marginally overstated".

Table 9: Are firms slow to Impair?

				Current and Prior Performance			
Size	Category	Gdw Chg	SaleGr	L1_SaleGr	L2_Salegr	L1_Roa	L2_Roa
Australia							
Large	No Change	0.00%	0.0955	0.0875	0.0894	0.0504	0.0509
Large	Impair	-30.06%	-0.0293	0.0214	0.0426	0.0257	0.0326
Medium	No Change	0.00%	0.1422	0.1193	0.1050	0.0422	0.0415
Medium	Impair	-33.83%	-0.0056	-0.0006	0.0418	0.0024	0.0275
Small	No Change	0.00%	0.0850	0.0802	0.0490	-0.1474	-0.1342
Small	Impair	-47.50%	0.0276	0.1315	0.0947	-0.1255	-0.1425
New Zealand							
Large	No Change	0.00%	0.0475	0.0409	0.0002	0.0295	0.0293
Large	Impair	-26.93%	-0.0142	0.0475	0.0881	0.0449	0.0459
Medium	No Change	0.00%	0.0787	0.0780	0.0675	0.0489	0.0493
Medium	Impair	-33.28%	-0.0033	0.0422	0.0945	0.0373	0.0373
Small	No Change	0.00%	0.0702	0.0811	0.0696	0.0518	0.0504
Small	Impair	-31.74%	0.0146	0.0415	0.0252	0.0111	0.0222
World							
Large	No Change	0.00%	0.0815	0.0790	0.0758	0.0307	0.0320
Large	Impair	-26.82%	0.0197	0.0442	0.0518	0.0221	0.0236
Medium	No Change	0.00%	0.0823	0.0825	0.0797	0.0407	0.0413
Medium	Impair	-28.14%	0.0230	0.0492	0.0490	0.0269	0.0286
Small	No Change	0.00%	0.0778	0.0740	0.0678	0.0325	0.0323
Small	Impair	-30.64%	0.0254	0.0529	0.0494	0.0174	0.0194

Firms that Impair goodwill are matched to firms of the same size and in the same industry that did not impair and current and prior performance is then computed. SalesGr is the percent growth in sales in the year of impairment. L1_saleGr (L2_salegr) is the percent growth in sales in the year (2 years) prior to the year of impairment. L1_Roa (L2_Roa) is the return on assets in the year (2 years) prior to the year of impairment. Gdw Chg is the percentage write-down of goodwill in the year of impairment.

Table 10: Top Ten Companies by Intangible Intensity as a Percent of Total Assets

Australia		New Zealand	
Company Name	Percent	Company Name	Percent
Cullen Resources Nl	0.9182	Sanford Ltd	0.5976
Skin Elements Ltd	0.9085	ArborGen Holdings Ltd	0.5443
Amplia Therapeutics Ltd	0.8637	TruScreen Group Ltd	0.4691
Latrobe Magnesium Ltd	0.8453	Finzsoft Solutions Limited	0.4368
Invion Ltd	0.8438	Geo Ltd	0.4305
High Peak Royalties Ltd	0.8231	NZME Ltd	0.4247
Race Oncology Ltd	0.8047	Cooks Global Foods Ltd	0.3527
Registry Direct Limited	0.7891	Kathmandu Holdings Ltd	0.3292
YPB Group Ltd	0.7878	SkyCity Entertainment Group Ltd	0.2988
iCollege Ltd	0.7786	Serko Ltd	0.2738

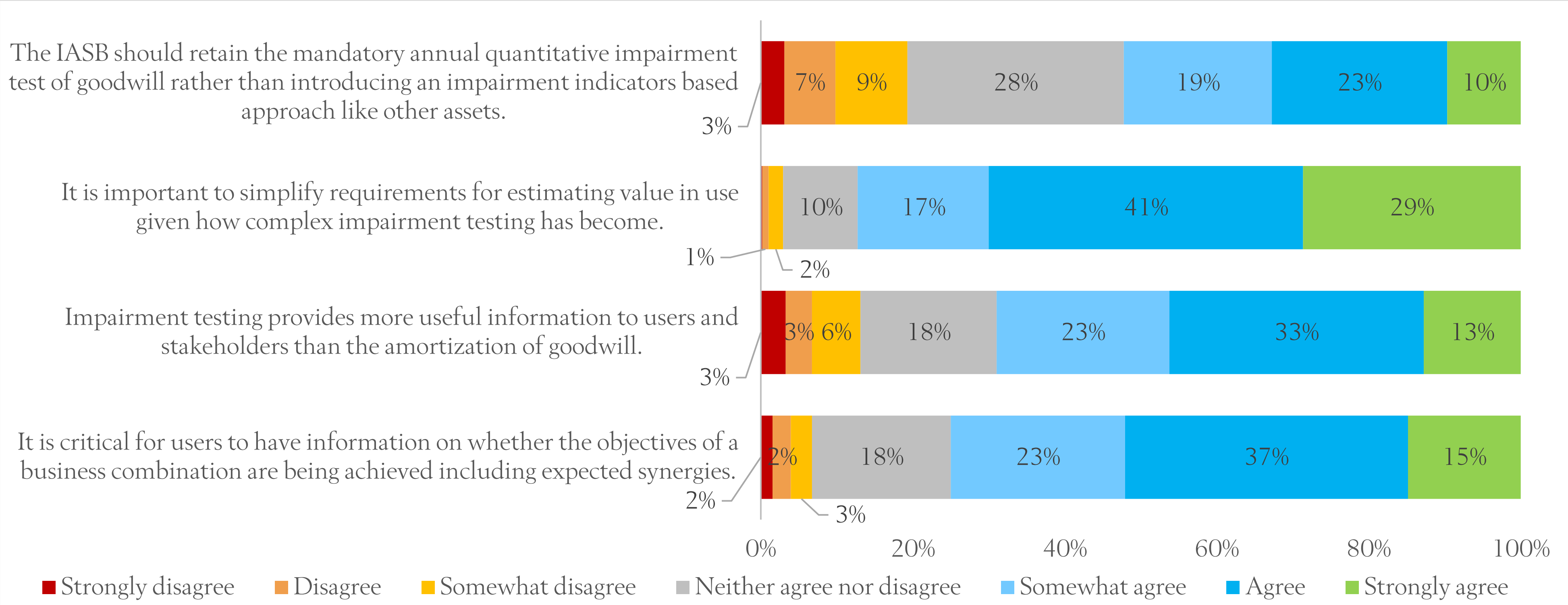
Countries covered by Standards & Poor's Global DataBase

United Arab Emirate	Estonia	Lebanon	Qatar
Argentina	Finland	Liberia	Romania
Australia	Falkland Islands (M	Liechtenstein	Russia Federation
Austria	France	Sri Lanka	Rwanda
Belgium	Faroe Islands	Lithuania	Saudi Arabia
Benin	Gabon	Luxembourg	Sudan
Burkina Faso	United Kingdom	Latvia	Senegal
Bangladesh	Georgia	Morocco	Singapore
Bulgaria	Guernsey	Monaco	Republic of Serbia
Bahrain	Ghana	Mexico	Slovakia
Bahamas	Gibraltar	Marshall Islands	Slovenia
Belize	Greece	Malta	Sweden
Bermuda	Hong Kong	Mauritius	Swaziland
Brazil	Croatia	Malawi	Togo
Botswana	Hungary	Malaysia	Thailand
Switzerland	Indonesia	Namibia	Trinidad and Tobago
Chile	Isle of Man	Niger	Tunisia
China	India	Nigeria	Turkey
Cote d'Ivoire	Ireland	Netherlands	Taiwan, Province of
Cameroon	Iceland	Norway	Tanzania
Colombia	Israel	New Zealand	Uganda
Curaçao	Italy	Oman	Ukraine
Cayman Islands	Jamaica	Pakistan	Venezuela
Cyprus	Jersey	Panama	Virgin Islands, British
Czechia	Jordan	Peru	Virgin Islands, U.S
Germany	Japan	Philippines	Vietnam
Denmark	Kazakhstan	Papua New Guinea	South Africa
Ecuador	Kenya	Poland	Zambia
Egypt	Korea, Republic of	Portugal	Zimbabwe
Spain	Kuwait	Palestinian Territo	

Attachment C

This is an extract from the 2020 Chartered Accountants IFRS survey report that presents the findings of quantitative research with members from CA ANZ and other industry professionals, all of whom have a role in interacting with financial statements. This survey was conducted in September 2020 with a sample size of 752 respondents from practice, corporate, education, government and NFP sectors.

The questions and responses below relate to the IASB's proposals contained in the Discussion Paper *"Business Combinations - Disclosures, Goodwill, and Impairment"* asking to what extent do the respondents agree or disagree with each of the following statements?



Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452