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Comments on the Exposure Draft (IASB/ED/2024/1)
Business Combinations-Disclosures, Goodwill and Impairment
(Proposed amendments to IFRS 3 and IAS 36)

1. The Accounting Standards Board of Japan ("we") welcome the opportunity to provide our comments on the International Accounting Standards Board ("the IASB")'s Exposure Draft (IASB/ED/2024/1) *Business Combinations-Disclosures, Goodwill and Impairment* (Proposed amendments to IFRS 3 and IAS 36) ("the ED"), issued in March 2024.

2. Our main comments in this comment letter are as follows.

(Our general view on IASB's response to the findings related to the accounting for goodwill in the Post-Implementation Review of IFRS 3)

3. We regret that reintroduction of amortisation of goodwill was not proposed in the ED.

4. The ED notes that the decision not to reintroduce amortisation of goodwill was made in the context of the post-implementation review (PIR) of IFRS 3 *Business Combinations*. Based on this decision, the basic structure of the impairment-only approach is maintained, and the shielding effect in the impairment test continues to exist and the expenses arising from goodwill continue to be recognised in delay. These issues, which were identified in the PIR, will not be resolved. We acknowledge that the ED has proposed some improvements to the effectiveness of the impairment test, but such proposals merely clarify the existing requirements and will not resolve the fundamental problem. Goodwill balances have been increasing continuously over the years and we are concerned that financial statements (in

particular, the statement of financial position) will become less useful in the future. In this context, we continue to believe that the amortisaton of goodwill needs to be reintroduced.

5. If the IASB were to retain the current impairment-only approach, as proposed in the ED, we think that the logic underlying the adoption of such approach must be sound. The ED proposes to require entities to disclose how long the benefits expected from synergies are expected to last. Synergies are generally considered to be one of the typical elements that constitute goodwill and, accordingly, this proposal apparently implies that the useful life of goodwill can usually be estimated. Our understanding is that one of the main arguments for not reintroducing amortisation of goodwill was the difficulty in estimating the useful life of goodwill, and we think this proposal is inconsistent with the existing requirements in IFRS Accounting Standards.

(Disclosure of information about the performance of business combinations)

6. The ED proposes to require entities to disclose information about the performance of business combinations in response to users' strong needs for better information about business combinations. The ED argues that the IASB can require entities to disclose such information in the notes to the financial statements because such information allows users to better understand the acquisition prices of business combinations.

   In this regard, while we recognise that information about the acquisition prices can be useful to users of financial statements, such as when users assess the profitability of business combination transactions, we believe that it is appropriate to disclose information about the performance of business combinations outside the financial statements. This is because the proposed information includes specific aims that management expects to achieve through the business combinations and the extent to which such aims have been or are being achieved, and the information would be more useful to users if it is provided together with descriptions of the objective of the business combinations in the context of the overall business and management's expectations for the business combinations. The objective of the business combinations in the context of the overall business and management's expectations for the business combinations are generally explained outside the financial statements as part of the description of the entity's business strategy. We believe that information about the acquisition prices of business combinations should be provided together with the description of the entity's business strategy for a better understanding of the entity's business activities.

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(Disclosure of quantitative information about expected synergies)

7. We disagree with the proposal to disclose quantitative information about expected synergies. We acknowledge that the proposal meets the information needs of users of financial statements; however, similar to the information about the performance of business combinations as noted in the previous paragraph, such information represents specific management's expectations for the business combination, and we believe that it is appropriate to disclose this information outside the financial statements together with the description of the entity's business strategy.

8. Our responses to each of the questions asked in the ED are set out in the Appendix.

We hope that our comments will contribute to future deliberations at the IASB. Please feel free to contact us if you have any questions.

Yours sincerely,

Y. Kawanishi

Yasunobu Kawanishi
Chair
Accounting Standards Board of Japan

Appendix

Comments on Specific Questions in the ED

Our comments on the specific questions set out in the ED are as follows.

Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)
In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that: • users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular, users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21). • preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22). Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost. In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing: • to require this information for only a subset of an entity's business combinations—strategic business combinations (see question 2); and • to exempt entities from disclosing some items of this information in specific circumstances (see question 3). (a) Do you agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so. (b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business

combination at a reasonable cost?

(Comments)

1. The ED proposes to require entities to disclose information about the performance of business combinations in response to users' strong needs for better information about business combinations. The ED argues that the IASB can require entities to disclose such information in the notes to the financial statements because such information allows users to better understand the acquisition prices of business combinations.

   In this regard, while we recognise that information about the acquisition prices can be useful to users of financial statements, such as when users assess profitability of business combination transactions, we note that the means to communicate such useful information is not limited to the financial statements and believe that such information should be presented using the means through which the information would be most useful to users of financial statements. Based on this thinking, we believe that it is appropriate to disclose information about the acquisition prices of business combinations outside the financial statements for the following reasons:

   (a) Information about the performance of business combinations includes specific aims that management expects to achieve through the business combinations and the extent to which such aims have been or are being achieved, and the information would be more useful to users if it is provided together with a description of the objective of the business combinations in the context of the overall business and management's expectations for the business combinations. The objective of the business combinations in the context of the overall business and management's expectations for the business combinations are generally explained outside the financial statements, as part of the description of the entity's business strategy in the business review or so-called Management Discussion and Analysis (MD&A) in annual reports. When explaining the business strategy, entities explain the main factors of business activities including the entity's business focus, measures to grow the business and measures to address social issues, and against this background, an entity explains the roles of business combinations in conducting those activities. We believe that information about the acquisition prices of business combinations should be provided together with such information about business strategy for a better understanding of the entity's business activities.

   (b) The identified key objectives and related targets reflect management's expectations for the business combinations and have different characteristics from other information provided in the notes to the financial statements, which are prepared considering the qualitative characteristics of financial information, such as faithful representation (including neutrality), verifiability and comparability. Accordingly, the characteristics of the key objectives and related targets may be misunderstood if such objectives and targets are disclosed alongside other information in the notes to financial statements.

(c) Some of the key objectives and related targets may be expressed in non-monetary terms (for example, the increase in the number of customers, improvements in development capacity, knowledge sharing, etc.), we think that such information would be more appropriately disclosed outside the financial statements.

(d) The ED proposes entities to disclose acquisition-date key objectives and related targets of business combinations to provide information about the acquisition price. While acquisition-date information can be useful in itself, the objectives and targets of business combinations may change over time as circumstances change. In this regard, if an entity were to disclose the information outside the financial statements, the entity would not be limited to the information relating to the acquisition price and would be able to disclose information at the acquisition date as well as additional information that reflects changes in circumstances, which could result in providing more useful information.

2. In the course of our discussions, some members have expressed a view that, because the information about the performance of business combinations is useful to users of financial statements, the IASB should undertake initiatives to establish such disclosure practice even when the information is disclosed outside the financial statements, for example, by amending IFRS Practice Statement No. 1 *Management Commentary*, by publishing relevant educational materials, or by referring to this point in speeches at seminars hosted by the IASB.

Question 2—Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)
The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy. The IASB is proposing that entities identify a strategic business combination using a

set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73).

The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70).

(a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why?

(b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?

(Comments)

3. In our response to Q1, we stated that information about the performance of business combinations should be disclosed outside the financial statements. Accordingly, we note that our comments below on the details of the proposals assume that the proposed information would be required to be disclosed in the notes to the financial statements, as opposed to our overall comments on the proposal.

4. We agree with limiting the scope of business combinations that are subject to the proposed disclosure requirements by providing a definition of 'strategic business combination'. This definition ('a business combination for which failure to meet any one of an entity’s acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy') is set out in paragraph BC54 of the ED but is not included in the main text of the proposed amendments to IFRS 3. This statement explains the basic concept of a strategic business combination and should be included in the main text.

5. On the other hand, we do not agree with the threshold approach whereby a business combination would be within the scope of the proposed disclosure requirements if only one of the quantitative thresholds is met. Rather, we believe that a combined assessment using quantitative factors as well as qualitative factors is necessary.

   Paragraph BC55 of the ED describes to some extent the relationship between the quantitative thresholds proposed in the ED and the definition of a strategic business combination, but the relationship between those thresholds and the overall business strategy in the definition is not sufficiently clear. We are concerned that this ambiguity may cause such a negative consequence as selecting business combinations that have little relevance to the overall business strategy within the scope of the disclosure requirement (for example, a threshold can be a small absolute value of operating profit or loss, which is one of the quantitative measures, due to its high volatility). We acknowledge that the quantitative thresholds have the advantage of reducing the cost of selection, but they should not be used in isolation. Rather, we believe that there should be an additional assessment on top of the quantitative thresholds using the qualitative thresholds and the qualitative factors included in the definition of a strategic business combination. As a result of the additional assessment, we think some business combinations that would have been selected by merely meeting the quantitative threshold would not be required to be disclosed.

Question 3—Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)
The IASB is proposing to exempt an entity from disclosing some of the information that would be required applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers' concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107). The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption. (a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns. (b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

(Comments)

6. In our response to Q1, we stated that information about the performance of business combinations should be disclosed outside the financial statements. Accordingly, we note that our comments below on the details of the proposals assume that the

proposed information would be required to be disclosed in the notes to the financial statements, as opposed to our overall comments on the proposal.

7. We have heard significant concerns about commercial sensitivity of disclosing information about the performance of business combinations and agree that an exemption from the proposed disclosure requirements should be provided under certain conditions.

8. We also agree that the exemption should be applied in appropriate circumstances and support the IASB providing guidance to clarify when the exemption would be applied.

9. However, we think that, in relation to the condition for permitting exemptions, focusing on the risk of whether disclosing information can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination may not be responsive to the feedback received by the IASB. In this regard, paragraph BC75 of the ED explains some of the feedback received from stakeholders:

   (a) targets—respondents said disclosing targets for a business combination could reveal information about how an entity prices deals. The entity's competitors could use this information to outbid the entity in future deals. Respondents said this would be particularly problematic if the entity was entering into a series of strategically linked acquisitions.

   (b) cost-based targets—respondents said disclosing cost-based targets could reveal an entity's internal cost structure. An entity's competitors could use such information to outbid the entity in future tenders and customers could ask for some of the cost savings to be passed on to them.

   (c) employee-related information—respondents said disclosing information relating to employees (for example, redundancy information) could demotivate employees or pre-empt some jurisdictions' legal requirements to inform employees or trade unions first about potential redundancies.

   These examples assume that disclosure would seriously prejudice future business combinations or likely future transactions or activities, rather than business combinations that have already occurred. Under the proposals in the ED, the expected serious prejudice to the achievement of the objectives of future business combinations and other future transactions or activities would not meet the proposed condition for exemption. Accordingly, we think that the proposed condition would not be responsive to the feedback received by the IASB and the condition for the exemption should be properly revised to address the concerns raised in the feedback so as not to undermine the objective of providing the exemption.

Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)
The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is reviewed by its key management personnel (see paragraphs BC110–BC114). The IASB's proposals would require an entity to disclose this information for as long as the entity's key management personnel review the performance of the business combination (see paragraphs BC115–BC120). The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel: • do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so; • stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and • have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition. (a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination? (b) Do you agree that: (i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not? (ii) an entity should be required to disclose the information specified by the

proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?

(Comments)

10. In our response to Q1, we stated that information about the performance of business combinations should be disclosed outside the financial statements. Accordingly, we note that our comments below on the details of the proposals assume that the proposed information would be required to be disclosed in the notes to the financial statements, as opposed to our overall comments on the proposal.

11. We agree that the information required to be disclosed should be the information that has been reviewed by the entity's senior management.

12. However, we do not agree with limiting management to the entity's key management personnel as defined in IAS 24 *Related Party Disclosures*. As the role of management is likely to be different in each entity, we believe it is better to leave the identification of management to the entity rather than to rely on the terminology in IFRS Accounting Standards as proposed in the ED. Because management would be held accountable for undertaking strategic business combinations, we believe that there is little risk in not specifying the level of management in the IFRS Accounting Standards. The proposal states that acquisition-date key objectives required to be disclosed are those that are critical to the success of the business combination, and the level of management for the purpose of the disclosure requirements is likely to be determined by those objectives.

13. Regarding the proposal on the period for which information is to be disclosed, we believe that it would be better to leave to management the decision on the period, including the identification of the review that determines the information to be disclosed, and to require management to explain those decisions. This is because we do not believe that the proposals in the ED that distinguish the detailed circumstances of management review are consistent with the objective of the management approach, which is to provide information from the management's perspective.

14. The status or nature of management review may change over time. For example, reviews that focus on business combinations for which information is disclosed may transition to a periodic budget cycle review that is regularly conducted in other business units. If an entity ceases to disclose the information in the notes to the financial statements in response to such transition in how management conducts its

review, management should explain the circumstances of the transition in its review and provide the information necessary to track relevant information subsequently.

Question 5—Disclosures: Other proposals
The IASB is proposing other amendments to the disclosure requirements in IFRS 3. These proposals relate to: *New disclosure objectives (proposed paragraph 62A of IFRS 3)* The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28). *Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)* The IASB proposes: • to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy); • to require an entity to disclose for each category of synergies: • the estimated amounts or range of amounts of the expected synergies;   • the estimated costs or range of costs to achieve these synergies; and   • the time from which the benefits expected from the synergies are expected to start and how long they will last; and • to exempt an entity from disclosing that information in specific circumstances. See paragraphs BC148–BC163. *The strategic rationale for a business combination (paragraph B64(d) of IFRS 3)* The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165). *Contribution of the acquired business (paragraph B64(q) of IFRS 3)* The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes: • to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project); • to explain the purpose of the requirement but add no specific application guidance;

and

- to specify that the basis for preparing this information is an accounting policy.

Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)

The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).

Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)

The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183).

Do you agree with the proposals? Why or why not?

(Comments)

New disclosure objectives

15. As stated in our response to Question 1, we disagree with the proposal to disclose information about the performance of business combinations in the notes to the financial statements and, accordingly, we do not agree with the proposal to add a disclosure objective to support such disclosure proposal.

Disclosure of quantitative information about expected synergies

16. We disagree with the proposal to disclose quantitative information about expected synergies. Synergies envisaged by stakeholders may include qualitative outcomes expected from business combinations, and synergies may include other elements not related to goodwill. Given this breadth of the concept, many stakeholders are confused by the ED's proposal to disclose quantitative information without an explanation of the scope and nature of what is expected to be disclosed as synergies. Our main reasons for disagreeing with the proposal are as follows:

    (a) It is unclear why the ED proposes such detailed requirements only for synergies when goodwill consists of different elements.

    (b) While we do not necessarily disagree that the proposed information can be useful to users of financial statements, we think that it would be more useful to users if the information is provided outside the financial statements, because the information represents what management expects from business combinations. This is similar to our previous comments to Q1 on the proposal to disclose

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information about the performance of business combinations. Some further argue that the information may be unrelated to the transaction price of a business combination and the amount of goodwill. We are concerned that the characteristics of information may be misunderstood if it is disclosed with other financial information prepared, considering the qualitative characteristics of financial information, such as faithful representation (including neutrality) as well as verifiability and comparability.

(c) Many stakeholders think that synergies subject to the disclosure requirements are unclear. While paragraph BC159 of the ED notes such concerns, paragraph BC160 of the ED explains that no definition is provided, because the term is widely understood. However, the synergies envisaged by stakeholders may include both qualitative and quantitative outcomes expected from business combinations, including those not related to goodwill. Because the proposals in the ED do not explain the scope and nature of the information expected to be disclosed as synergies, it may not ensure the feasibility of disclosures and may result in diversity.

<u>The strategic rationale for business combinations</u>

17. We agree with the proposal, because this is in line with the existing requirement and we recognise the information needs of users.

<u>Contribution of the acquired business</u>

18. We do not necessarily agree with the IASB's definition of operating profit or loss as a residual, in line with our previous comments on the proposals in the Primary Financial Statements project (such as those in our comment letter on the Exposure Draft *General Presentation and Disclosures*) and, accordingly, we remain unconvinced that information based on the subtotal of operating profit or loss defined should be provided. However, as explained in paragraph BC170(a) of the ED, we think that operating profit or loss is generally more helpful than profit or loss in analysing trends in operating performance.

19. We believe that it is necessary to explain the basis on which the entity prepares information about the contribution of the acquired business when no application guidance is provided. However, we think that the proposal to establish it as an accounting policy should be reconsidered because we question the feasibility of the proposal given the diverse circumstances surrounding business combinations and the fact that business combinations may be infrequent.

<u>Classes of assets acquired and liabilities assumed</u>

20. We agree with the proposal.

Deleting disclosure requirements

21. We agree with the proposal.

Question 6—Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)
During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cash-generating units containing goodwill results in impairment losses sometimes being recognised too late. Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were: • shielding; and • management over-optimism. The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193). *Proposals to reduce shielding* The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191). Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash-generating units (see paragraphs BC194–BC201). *Proposal to reduce management over-optimism* The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash-generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202). (a) Do you agree with the proposals to reduce shielding? Why or why not? (b) Do you agree with the proposal to reduce management over-optimism? Why or why not?

(Comments)

22. Regarding (a) and (b), we do not disagree with the proposals. However, we do not believe that these proposals substantially resolve the issue of delayed recognition of expenses arising from goodwill, which was the main issue identified in the PIR.

23. Regarding (b), we believe that the wording 'management over-optimism' is misleading and thus should not be used. This is because this wording could imply that management optimism is beyond reasonable bounds and that the financial information presented in the financial statements is misstated. We think that management optimism contained in the estimates is usually ensured to be within reasonable bounds by the various mechanisms surrounding the disclosure system, such as preparers' compliance with accounting standards, auditors' audit of financial statements and regulators' enforcement.

Question 7—Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)
The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes: • to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214). • to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222). (a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not? (b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

(Comments)

24. Regarding (a), we do not disagree with the proposal. This is because simplification is expected to be achieved, and because the cash flow projections to be used to estimate value in use should be based on reasonable and supportable assumptions in accordance with paragraph 33 of IAS 36, which limits the over-statement of value in use. However, we note that this proposal is likely to increase management

optimism and is not consistent with the analysis in the ED that optimism is one of the main causes of delayed recognition of impairment losses.

25. Regarding (b), we agree with the proposal. If there is no theoretical difference in outcome between the pre-tax basis and the post-tax basis, we do not think that it is necessary to specify one or the other.

Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)
The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263. Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.

(Comment)

26. We agree with the proposal.

Other comments

27. We express our sincere respect for the IASB's efforts to date in reaching its conclusion on the accounting for goodwill in the ED after gathering extensive information from both sides of stakeholders: those who support the amortisation-based approach and those who support the impairment-only approach.

28. However, we regret that the IASB has not proposed the reintroduction of amortisation in the ED after years of discussion. We continue to believe that goodwill is one of the costs related to a business combination that has a wasting nature, and that amortisation would provide useful information. We also believe that amortisation is an effective way to address the issue of delayed recognition of expenses arising from goodwill, which was the main issue identified in the PIR and has been an issue for years. In particular, we note that it is difficult to resolve the shielding effect under the impairment-only approach because the approach does not distinguish acquired goodwill from internally generated goodwill as a unit of account, and in this regard, we believe that amortisation has the advantage of not causing the

shielding issue because the approach considers acquired goodwill as a separate unit of account.

29. Paragraphs BC232 and BC 233 of the ED note that the decision not to reintroduce amortisation of goodwill was made in the context of the PIR. This decision essentially maintains the basic structure of impairment testing of CGUs including goodwill. As a result, we believe that the shielding effect in the impairment test will continue to exist and the issue of delayed recognition of expenses arising from goodwill identified in the PIR will not be resolved. In this regard, we acknowledge that the ED has proposed some improvements to the effectiveness of the impairment test, but such proposals merely clarify the existing requirements and will not resolve the fundamental problem. Goodwill balances have been increasing continuously over the years and we are concerned that the usefulness of financial statements (in particular, the usefulness of the statement of financial position) will become less useful in the future. As significant improvements to the impairment test are not currently expected, we continue to believe that the amortisaton of goodwill needs to be reintroduced.

30. Furthermore, if the IASB were to retain the existing impairment-only approach, as proposed in the ED, we think that the logic underlying the adoption of such approach must be sound. The ED proposes to require entities to disclose how long the benefits expected from synergies are expected to last in paragraph B64(ea). Synergies are generally considered to be one of the typical elements that constitute goodwill and, accordingly, this proposal apparently implies that the useful life of goodwill can usually be estimated. Our understanding is that one of the main arguments for not reintroducing amortisation of goodwill was the difficulty in estimating the useful life of goodwill, and we think this proposal is inconsistent with the existing requirements in IFRS Accounting Standards.

[EOD]