(Translation for reference)

Comments on Discussion Paper
Should Goodwill Still Not Be Amortised? - Accounting and Disclosure for Goodwill

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The Japanese Institute of Certified Public Accountants

The Japanese Institute of Certified Public Accountants appreciates the research activities undertaken by the Research Group of the Accounting Standards Board of Japan (ASBJ), European Financial Reporting Advisory Group (EFRAG) and the Organismo Italiano di Contabilità (OIC), and welcomes the opportunity to provide comments on its Discussion Paper *should Goodwill Still Not Be Amortised? - Accounting and Disclosure for Goodwill* (hereinafter referred to as "the DP").

We agree, in principle, that there should be a requirement to amortise goodwill. On the other hand, even if amortisation of goodwill were required, relevant information would not be provided to users of financial statements unless the determination of the amortisation period is properly addressed in accounting standards, as noted in our responses to Question 2. Furthermore, amortisation of goodwill does not solve every challenges, because amortisation alone would not be enough to reflect the decrease in the value of goodwill in the financial statements in a timely manner. Accordingly, in addition to amortisation, we believe it necessary to properly recognise impairment losses through impairment testing.

Moreover, the DP does not directly discuss the issues on impairment testing under the assumption that goodwill is amortised. However, we acknowledge that, under the assumption that goodwill is amortised, it would be necessary to consider issues that are not addressed under the impairment-only approach, including consistency of the amortisation period with the period over which cash flows are estimated in impairment testing and with the method for estimating terminal values. Furthermore, as discussed in Chapter 3 of the DP, many of the challenges identified in the DP relate to implementation of the impairment testing. From this perspective, we suggest that amortisation of goodwill be reintroduced, while improvements be also made to accounting requirements for carrying out proper and rigorous impairment testing.

In the following paragraphs, we provide our comments to the questions in the DP.

1. Do you agree that there should be a requirement to recognise goodwill as an asset and amortise it over subsequent periods? If so, do you support amortisation because:
   (a) goodwill existing at acquisition date is consumed and replaced with internally generated goodwill over time, thus it should be allocated to subsequent periods as part of the cost of acquiring an entity;
   (b) an impairment-only model is not sufficiently reliable due to the large use of assumptions in the impairment test (future cash flows, terminal growth rate and discount rate); or
   (c) amortisation of goodwill, in addition to the impairment test, achieves an appropriate cost-benefit balance.

【Comments】

We agree that there should be a requirement to recognise goodwill as an asset and amortise it over subsequent periods.

This is because, as described in (a), we believe that goodwill existing at acquisition date is consumed and replaced with internally generated goodwill over time, thus it is appropriate to amortise goodwill in order to reasonably reflect the consumption of goodwill, which is considered to be the economic recourse acquired in the business combination over time.

2. Assuming that there was a requirement to amortise goodwill, do you think that the IASB should:
   (a) indicate what the amortisation period should be?
   (b) indicate a maximum amortisation period?
   (c) provide guidance on how entities should assess the amortisation period (for instance, by referring to the expected payback period or the useful life of the primary asset)?
   (d) allow entities to elect the amortisation period that they consider appropriate?

【Comments】

We believe that the IASB should take actions described in (a), (b) and (c) in the question.

(Translation for reference)

(a) Indicate what the amortisation period should be

In our view, guidance on how to determine the amortisation period should include the following items, as outlined in paragraph 84 of the DP:

- A principle regarding how the amotisation period should be determined (paragraph 84 (a) of the DP);
- Criteria regarding which information should be considered to determine the amotisation period (paragraph 84 (b) of the DP); and
- A requirement to review the amortisation period (paragraph 84 (d) of the DP).

(b) Indicate a maximum amortisation period

There are uncertainties in estimating the period over which goodwill is expected to have an effect, particularly when the goodwill is expected to have an effect over a long period of time. In order to address such uncertainties, introducing a rebuttable presumption about the maximum amortisation period would be a viable solution.

(c) Provide guidance on how entities should assess the amortisation period

A possible idea is to provide guidance on how the amortisation period should be assessed, on the basis of the following three factors outlined in paragraph 84 (c) of the DP:

- An expected period over which the acquired business is expected to earn a high rate of return;
- Expected payback period of an investment on a business combination; and
- A useful life of a primary identifiable long-lived asset.

3. The DP suggests the need for improved guidance in a number of areas in IAS 36. Do you think that the IASB should improve and/or provide additional guidance in relation to:
   (a) the methods to determine the recoverable amount of goodwill;
   (b) the application of the value-in-use method;
   (c) the identification of cash-generating units and allocation of goodwill to each unit; and
   (d) the choice of the discount rate.
   If not, please indicate why. Please state any specific suggestions for improvements

if you have.

【Comments】

The IASB should improve existing guidance of IAS 36, and provide additional guidance, as necessary.

(a) Methods to determine the recoverable amount of goodwill

We are of the view that the guidance regarding how to determine the recoverable amount of goodwill should be improved. The area of possible improvement includes the following:

- As stated in paragraph 112 of the DP, IFRS 13 *Fair Value Measurement* (issued in 2011) clarified methods for measuring fair value in the absence of a primary market for the asset, and introduced the concept of the 'highest and best use' for fair value of non-financial assets. Some question whether it is possible for an entity to conclude that the value-in-use exceeds the fair value less cost to sell, which is calculated based on the highest and best use, assuming that costs of disposal are insignificant. We believe that it would be necessary to review the relationship between the 'value-in-use' and the 'fair value less cost to sell' in the context of calculating the recoverable amount of a cash-generating unit (CGU) to which goodwill is allocated.

(b) Application of the value-in-use method

We are of the view that the guidance regarding how to apply the value-in-use should be improved. The area of possible improvement includes the following:

- Paragraph 44(b) of IAS 36 *Impairment of Assets* states that future cash flows that are expected to arise from improving or enhancing the asset's performance must be excluded in estimating cash flows used to determine value-in-use of a CGU to which goodwill is allocated. However, the most recent financial budgets approved by management, on which the estimates of future cash flows are based, usually include plans that are expect to implement future expansions. Consequently, we think that development of guidance should be considered to assist judgment as to whether the planned future investment would improve or enhance the asset's performance (such an investment should be excluded from the expected cash flows), or be regarded as maintenance.

(c) *Identification of cash-generating units and allocation of goodwill to each unit*

We are of the view that the guidance regarding identification of CGU and allocation of goodwill to each unit should be improved. The area of possible improvement includes the following:

- In accordance with paragraph 80(a) of IAS 36, CGUs or groups of CGUs to which goodwill is allocated cannot be smaller than the lowest level at which the goodwill is monitored for internal management purposes, unless that level is larger than an operating segment. Accordingly, the level at which management monitors goodwill could affect the impairment of goodwill and thus entities that do not have proper management-level internal controls might not recognise impairment at an appropriate level.

- The treatment of impairment testing during the measurement period for the business combination when the allocation of goodwill is not completed (paragraph 84 of IAS 36) is unclear.

(d) *Choice of the discount rate*

We are of the view that the guidance regarding the application of discount rates should be improved. The area of possible improvement includes the following:

- In practice, entities often use the post-tax weighted average cost of capital, as the discount rate to discount post-tax cash flows, and then, for disclosure purposes, iteratively calculate the pre-tax rate that would give the same effect on the fair value measurement. In the context of such practice, we believe that it necessary to reconsider the requirement in paragraph 55 of IAS 36 that states that the discount rate shall be a pre-tax rate.

In connection therewith, we have been monitoring the IASB's ongoing research project on discount rates.

4. The DP suggests a number of possible new disclosures about impairment testing for goodwill. Do you think that the IASB should consider improving requirements to: (a) assist users in understanding the robustness of the modelling and the entity's current assumptions; (b) provide confirmation of the 'reasonableness' of the entity's past assumptions;

> and
> (c) assist users in predicting future impairment.

【Comments】
We do not think it necessary to immediately consider the improvement of the disclosure requirements.

In addition, we believe that the Research Group should carefully consider the information needs of users as noted in paragraph 163 of the DP, before requesting the IASB to consider improving the requirements. In doing so, we believe that the Research Group should refer to objectives of disclosures about impairment testing for goodwill in (a), (b) and (c) above, as well as the suggested items of disclosure explained in paragraph 137 through paragraph 162 of the DP.

> 5. IAS 38 requires that intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually. Assuming that there was a requirement to amortise goodwill, do you think that the same requirement should be extended to other intangible assets with indefinite useful lives? In addition, assuming that there was a requirement to amortise goodwill, do you think that the current requirements of identifying intangible assets separately from goodwill should be reconsidered? If so, how?

【Comments】
(Whether to extend the requirement to amortise goodwill to other intangible assets with indefinite useful lives)
Assuming that a requirement to amortise goodwill were to be reintroduced, there are mixed views on whether the requirement should be extended to other intangible assets with indefinite useful lives as follows:

- *Arguments against the extending the amortisation requirement*
  The rationale for a requirement to amortise goodwill is that goodwill existing at acquisition date will be consumed and replaced with internally generated goodwill over time, as discussed in our response to Question 1. This rationale does not necessarily provide sufficient counterargument against the rationale for non-amortisation of an intangible asset with an indefinite useful life, so that, “based on an analysis of all of the relevant factors, there is no foreseeable limit

to the period over which the asset is expected to generate net cash inflows for the entity" (paragraph 88 of IAS 38 *Intangible Assets*). Therefore, the requirement for amortisation should not be extended to other intangible assets with indefinite useful lives.

- *Arguments for the amortisation requirement*
  The value of the intangible assets with indefinite useful lives is not maintained permanently, and the economic benefits embodied in it are expected to be consumed. Consequently, if there should be a requirement to amortise goodwill, that requirement should be extended to other intangible assets with indefinite useful lives, on the condition that the maximum useful lives is specified.

(Whether to reconsider the existing requirement to identify intangible assets separately from goodwill)
We do not think that the current requirements to separately identify intangible assets from goodwill should be reconsidered.

We believe that recognising intangible assets separately from goodwill would provide the users of financial statements with useful information because the management intention in the business combination and the recourses acquired as intangible assets are reflected more clearly in the financial statements. In addition, because intangible assets that are indentified separately from goodwill may have a shorter or longer useful life than that of goodwill, by recognising intangible assets separately from goodwill, the financial statements after the business combination would better represent the financial position and performance of the entity, compared to the financial statements that do not separately recognise intangible assets from goodwill.

When identifying intangible assets separately from goodwill, it is necessary to ensure that their values can be reliably measured. This problem cannot be addressed by simply introducing a requirement to amortise goodwill, and needs consideration regardless of whether or not amortisation of goodwill is required.