HKiNED
香港獨立非執行董事協會
The Hong Kong Independent
Non-Executive Director Association

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

27 November 2020

Dear Sirs,

Comment on Discussion Paper DP/2020/1 Business Combinations - Disclosures, Goodwill and Impairment ("DP")

We appreciate the opportunity to comment on the International Accounting Standards Board's ("IASB's") Discussion Paper DP/2020/1 Business Combinations - Disclosures, Goodwill and Impairment.

The Hong Kong Independent Non-Executive Director Association ("HKiNEDA") is a non-profit association in Hong Kong which connects with independent non-executive directors ("INEDs") of Greater China, including mainland China, Hong Kong and Taiwan. We aim at enhancing professional development of INEDs, promoting healthy and outstanding corporate governance of listed companies, and sustainable development of the financial and capital market in Greater China.

Following consultation with members of the HKiNEDA, this response summarises the views of members who commented on the DP. We generally support the IASB going forward with the project and believe the proposals in the DP will improve the current standards. Our responses mainly focus on the questions related to below areas with the relevant IASB questions quoted:

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1. **Reintroduction of goodwill amortisation**

Two-thirds of the members consider that IASB should reintroduce amortisation of goodwill

Most of these members are in the view that amortisation simplifies things by reducing costs of performing impairment test. Some of these members consider goodwill as a wasting asset which should be consumed over time while some find goodwill amortisation helps narrowing the gap between companies with organic and acquisitive growth.

These members acknowledge the practical difficulties in determining the useful life of goodwill. Small majority of them suggest the useful life should be capped to avoid management optimism on the estimates while others suggest it should be based on management's expected timeframe to achieve goals and milestones.

In term of amortisation pattern, substantially all members prefer straight-line amortisation over the useful life.

Minority consider that IASB should keep the impairment-only model

Half of these members consider impairment-only model provides more useful information to investors and therefore do not support the reintroduction of amortisation of goodwill. Some of these members consider reintroduction of amortisation as a step backwards, which IASB has spent magnificent time and efforts in the development of the current IFRS 3. Some also commented that, in case if acquiree performs in line or above expectation, there is no deterioration of goodwill and it would not be appropriate to reduce the value of goodwill.

(Relevant question in DP: 7)

2. Simplification of goodwill impairment test

Four-fifths of the members supporting impairment-only model do not agree with the removal of annual impairment test requirement

Most of these members are in the view that removing the annual impairment test reduces robustness of the testing and may delay the recognition of impairment losses. Some consider disclosures of the test are useful to investors, particularly the assumptions and sensitivities, and the test prompts management to assess the business performance regularly.

Three-quarters of the members favour the simplification of Value-In-Use ("VIU") test

These members consider the simplification reduces cost and complexity of the tests without impairing much the usefulness of information. They generally support (1) developing a single model approach, which eliminates distinction between discounted cash flow of VIU and fair value less costs of disposal; (2) allowing the use of post-tax discount; and (3) removing restriction on cash flow relating to future uncommitted restructuring and improving the asset's performance.

(Relevant questions in DP: 9 & 10)

3. New disclosures about acquisitions

Four-fifths of the members agree with the new disclosure requirements, regarding the strategic rationale, objectives and subsequent performance of acquisitions

These members consider the new requirements provide investors more useful and necessary information. However, some members comment the additional disclosures may be more suitable to be made in the section of management's discussion and analysis rather than in financial statement.

Among the members who support the new disclosure requirement, a small majority prefer information to be prepared based on how management monitors and measures whether the acquisition is meeting its objectives. However, they acknowledge it may be hard to apply single metric, with the fact that all business combinations are different. The rest of members prefer metrics prescribed by the Board to ensure the adequacy and consistency of the disclosures among entities.

(Relevant question in DP: 2)

We note the IASB's efforts to enhance the current standard and appreciate the opportunity to express our views on the DP. We would be pleased to discuss our comments or answer any questions. Please do not hesitate to contact us on (852) 2593 9616 or at info@hkineda.com regarding our submission.

Yours faithfully,

Mr. David Li, President
Dr. Jacqueline Huang, Chairman of Business Valuation Committee
Ms. Shelley So, Chairman of Business Valuation Consultation Subcommittee
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