Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Meeting Summary of HKICPA Roundtable Discussion

Date: 6 October 2020, Tuesday
Time: 4:00 p.m. – 6:00 p.m.

IASB Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*

Ernest Lee, Chairman of Financial Reporting Standards Committee, HKICPA, and partner of Deloitte Touche Tohmatsu, welcomed all participants and introduced the event.

Ann Tarca, Board member of the IASB, introduced the IASB's goodwill project and the Discussion Paper (DP).

1. Improving disclosures about acquisitions

Dehao Feng, IASB technical staff, presented the IASB's preliminary views on improving disclosures.

Participants generally supported the DP's proposal on improved disclosures about acquisitions. The following comments were noted from participants:

- Many participants raised concerns about the sensitivity of the required disclosures, particularly the estimated amount or range of amounts of synergies expected from the acquisition and the metrics used by management for monitoring the performance of the acquiree.
- Two participants (an investor and a practitioner) considered that the proposed disclosures of the strategic rationale and objectives of the acquisition could be generic and boilerplate, and may not provide useful information to investors. One of them suggested the IASB require entities to explain the strategic plan that will be in place to achieve the expected synergies, given investors would be more interested in this information.
- A participant (an investor) commented that many metrics for monitoring the achievement of acquisition objectives may not be easily quantified for disclosure purposes, for example, a change of senior management or cultural/fit issues. This participant also shared the view that investors normally do not need to know the detailed management metrics of how a company monitors the subsequent performance of an acquisition, as this day-to-day work should be the role of management. Investors rather focus on whether the transaction is ultimately successful and whether there will be potential issues/risks in the transaction. This participant recommended that the IASB should consider removing the proposed metrics disclosures and provide more flexibility to entities. Additionally, this participant recommended the IASB require an explanation of the key risks or subsequent events that affect the performance of the acquiree after the acquisition in the management discussion and analysis. This particiapnt also suggested the IASB consider requiring disclosures for all material acquisitions, as it is expected that this would yield useful information and would not be overly burdensome to report.
- Another participant (an investor) shared a similar view and questioned the usefulness of disclosing the metrics to investors. Given the proposed disclosures of metrics have

to be made in the first two full years after the acquisition if the acquisition is monitored by the management, disclosing such short-term information may be detrimental to the long-term value of a company. This participant considered that if the transaction is successful, this would be reflected in the share price of the company, and investors do not have to focus on the metrics of the acquiree.

- A participant (a preparer) agreed the additional disclosures are good as they provide better information and transparency to the investors about the acquisition. However, preparers would be very sensitive to the type of information disclosed, particularly if the information is commercial and price-sensitive or involves forward-looking information. Further customisation may be necessary depending on the nature of the acquisition.
- A participant (a practitioner) shared the view that it is not expected to be overly challenging for practitioners to audit the proposed new disclosures, considering that they are generic and it is not difficult to reconcile them to other supporting information; particularly, for those listed companies that already prepare circulars for major transactions with similar disclosures.

2. Subsequent accounting of goodwill and other topics

Craig Smith, IASB technical staff presented the IASB's preliminary views on subsequent accounting of goodwill and other topics.

Subsequent accounting of goodwill

Participants expressed mixed views on the DP's proposals on goodwill impairment and amortisation. The following comments were noted from participants:

- A participant (an academic) commented that the IASB should consider focuses firstly on goodwill itself and the conceptual issues underlying the topic to determine what goodwill is, and then how it should most appropriately be accounted for. This participant considered that there should be a more robust focus on the conceptual and theoretical accounting arguments that may be lacking in the DP as-is. This participant remarked that goodwill does appear to be by nature more a wasting asset, and as such should be amortised, and drew analogy to plant, property and equipment which persists as a category while there is inevitably churn in the underlying assets. This participant rejected the notion that goodwill is different because it cannot be easily separated from internally generated goodwill on the basis that is only a practical limitation rather than a conceptual rationale.
- A participant (a preparer) agreed with the above participant that goodwill should be amortised and also analogized between goodwill and plant, property and equipment. This participant commented that when acquiring an entity, the amount paid in excess of the fair value of net assets does represent an expectation of future cash flows and hence it subsequently makes more sense to offset those future cash flows as they are realised with an amortisation expense on goodwill. This participant also noted that determining useful life for amortisation should be feasible, but that the IASB should provide guidance in this area and consider a cap on amortisation to prevent misuse.
- A participant (representing the investor profession) commented that having goodwill under an impairment-only model was helpful for comparing entities because there is not the need to adjust between different amortisation periods implemented by management.
- A participant (an investor) commented that any more information that can provide insight into management's assessment of value is welcome.
- A participant (a valuer) commented that there may be differing views of goodwill from a cost accounting perspective and from an investing fair value perspective, given that goodwill itself sits somewhere in between. This participant stated that when capital is invested in an acquisition, if subsequently that acquisition does not destroy value, then there should not necessarily be any expense recognised through goodwill.

- A participant stated that even under an amortisation model, impairment would still be needed to capture the destruction of value, but that amortisation could let management hide that through an amortisation expense rather than an impairment expense.

Other topics

The following comments were noted from participants on simplifying the impairment test:

- A participant (a valuer) welcomed the removal of annual impairment test requirement, so that the test would be more consistent with the accounting treatment of intangible assets with an indefinite useful life. This participant also support the use of post-tax cash flows and the post-tax discount rate in estimating value in use, since they are commonly used in valuations. The participant also indicated that changing the method of estimating value in use to include cash flows from a future uncommitted restructuring may increase the risk of management manipulation and difficulty for auditors and valuers, and thus committed only restructuring should be considered.
- A participant (an investor) expressed that if the carrying amount of goodwill is material, an annual impairment test should be carried out as this provides comfort to investors. This participant also agreed with the IASB's preliminary view to allow the use of post-tax cash flows and the post-tax discount rate in estimating value in use.
- A participant (a preparer) supported the IASB's preliminary view to allow the use of post-tax cash flows and the post-tax discount rate in estimating value in use since it is consistent with their internal practices.
- A participant (a practitioner) shared that most of clients use post-tax cash flows and the post-tax discount rate in estimating value in use.
- A participant (a practitioner) commented that removing the restriction on including cash flows from a future uncommitted restructuring didn't seem to conceptually make sense, and this would use forward-looking information and increase the risk that management's inputs in estimating value in use are too optimistic, hence contributing to challenges for auditors.

Tiernan Ketchum, Deputy Director, Standard Setting, HKICPA, presented the HKICPA's staff views on the subsequent accounting of goodwill.