



สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์

FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

December 18, 2020

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Mr. Hoogervorst,

Response on IFRS Standards Discussion Paper DP/2020/1 - goodwill and impairment

The Thailand Federation of Accounting Professions of Thailand would like to show our appreciation on the opportunity to response on *IFRS Standards Discussion Paper DP/2020/1 - goodwill and impairment*. Overall, we support with the proposals on general disclosures of post acquisitions, except the pro forma and other non-GAAP information. Nevertheless, we opinion that the impairment of goodwill should be tested only when there is the existence of an impairment indicator. Lastly, we quite not agree on the proposal to include goodwill as a negative item in the equity.

Please find our responses to the specific survey raised in *IFRS Standards Discussion Paper DP/2020/1 - goodwill and impairment* in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Thailand Federation of Accounting Professions of Thailand.

The Thailand Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr. Vorasak Toommanon
Chairman of Thai Accounting Standards Board
Thailand Federation of Accounting Professions
Bangkok, Thailand



IFRS Standards Discussion Paper DP/2020/1 - Business Combinations— Disclosures, Goodwill and Impairment

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?

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?



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(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



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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?

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?

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;



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- 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?

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?

(b) Should the Board develop guidance for companies on how to prepare the pro forma information?

Why or why not? 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?



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TFAC:

Group 1 Disclosures: response to Question 1 to Question 5

Disclosures about acquisition especially post acquisition:

We believe that the proposed disclosures especially that of post-acquisition would be very useful to users of financial statements especially in the case of improper acquisition and we are supportive to Board's initiative to enhance quality of disclosures.

However, we have some observations as follows:

(a) cost of preparation for information tends to be relatively high, still, even if it is intended to use information already available within the entity at the level of management responsible for monitoring of effectiveness of the synergies as a result of acquisition. However, the cost can be much higher than the board expected especially in case of pro forma financial highlight which involves forward-looking information, and lots of assumptions for pro forma financial statements; and

(b) information presented and disclosed on financial statements normally reports the entity's past events. When forecasted information under the format of pro forma for post-acquisition is included, it would be considered non-GAAP information and might have impact to expand auditor's opinion or report. This is basically because financial statements are prepared based on relevant accounting standards while pro forma is based on reasonable assumptions. Including the disclosures of pro forma in the financial reporting prepared under GAAP may confuse the users of the financial information. More importantly, the level of assurance on financial statements is far different from that on pro forma. We do agree with the Board's view proposed to add more information in relation to the post acquisition for the benefit of investors but we propose to be in a separate report from financial statements.

(c) We believe that information relevant to post acquisition is normally available in other documents such as annual report, MD&A, reports required by regulators, etc. It might not be necessary and appropriate to duplicate such information in the financial statements.

We also agree with Board's concern that certain disclosures may be commercially sensitive. Without clarity in disclosure requirements, there will be diversity in practice and disagreement over extent of disclosure between expectation of users and preparers.

CODM may not feel comfortable to disclose commercial sensitive information as part of financial statements.



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In conclusion, we agree with proposals on disclosures of post acquisitions in general however disclosure requirements need to be clear and specific. For pro forma information and other non-GAAP type of information, we would propose them to be presented in a separate report not in financial statements.

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?

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.)



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- (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 amortisation 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?

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?



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.

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?

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?



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- (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?

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?

TFAC:

Group 2: in response to Accounting for goodwill - response to Question 6, 7, 9 to Question 13

We agree with impairment test for goodwill with indicator.

Nonetheless, we consider that the present practice for impairment test might be burdensome. Annual impairment test requires the entity to estimate value in use and to determine fair value with the deduction of disposal cost for CGU. This procedures can be costly, and provide less increased benefits to users of financial statement as compared to incremental incurred cost.

Amortization of goodwill is the easiest way to charge goodwill as expense. The entity has no headroom for goodwill. However, it might be too conservative for charging useful asset to be expense. The period for amortization is also subject to debatable.

In conclusion, impairment test for goodwill with indicator yields the entity with less burden. Goodwill can be presented on financial statements as the entity values the benefit of goodwill as one of its resources.



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?

TFAC:

We believe that current disclosures provide sufficient information for users to understand the balance sheet status of the entity both with and without goodwill. Presenting goodwill as part of equity as a negative item might be misinterpreted that the goodwill arising from business combination is entirely impaired as it is no longer classify as asset of the entity. This will also impact interpretation of financial ratio analysis related to equity such as D/E ratio.

Question 14

Do you have any other comments on the Board’s preliminary views presented in this Discussion Paper?
Should the Board consider any other topics in response to the PIR of IFRS 3?

TFAC:

No comment