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6 January 2021

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO DISCUSSION PAPER – BUSINESS COMBINATIONS - DISCLOSURES, GOODWILL AND IMPAIRMENT ("DP")

ISCA sought views from its members on the above DP through a three-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms, preparers and other stakeholders.

We agree with the Board's overarching objective of providing investors with more useful information in entities' financial statements about the acquisitions which they make.

We support the key proposals in the DP such as to add new disclosure requirements on the subsequent performance of an acquisition and synergies from combining the operations of the acquired business with the company's business; and simplify calculation of an asset's value in use in IAS 36 *Impairment of Assets*. Should these proposals eventually result in amendments to IFRS 3 *Business Combinations*, we believe that investors would be better equipped with information on companies' acquisitions for their decision making.

We also wish to point out that the level of M&A activity is high as evidenced by deal intelligence service Mergermarket's report in 2019[1], where Singapore's M&A activity in 2019 totaled US$35.3 billion. Accordingly, the Board's proposals in this DP are likely to have quite a significant impact for Singapore incorporated entities.

One of the Board's proposals is to retain the current impairment model for goodwill. Our key concern is that the current model is inadequate. Firstly, it does not resolve the 'shielding effect', which would arise when the headroom of the acquirer's business absorbs the decline in the recoverable amount of the acquired business, thus shielding the goodwill from impairment.

[1] Mergermarket 2019 Global M&A Report with financial league tables:
https://www.mergermarket.com/info/2019-global-ma-report-financial-league-tables

Secondly, it does not capture the consumption of acquired goodwill (which in our view, does not have an indefinite useful life) over time. We urge the Board to consider revisiting the current impairment model for goodwill.

In addition, we foresee several challenges which entities may face in implementing the Board's proposals. Our above concerns are elaborated on below:

(i) Provide clarity over disclosures of subsequent performance of acquisitions

We are generally supportive of the Board's proposal of requiring entities to disclose the subsequent performance of their acquisitions. This proposal would also be in line with the objective of improving transparency in the financial statements and improving disclosure of areas which require the use of management judgment.

We note that the Board has proposed for entities to disclose the metrics which their management will use to monitor whether the objectives of the acquisition will be met. In addition, in paragraph IN 23, it is mentioned that the Board does not intend to prescribe specific metrics to be disclosed because no single metric could provide investors with adequate information.

Notwithstanding this, the Board should consider providing guidance on types of metrics and information which entities could disclose and include such examples in any future Exposure Draft.

Without providing guidance on disclosures, entities may simply produce qualitative boilerplate disclosures on the subsequent performance of their acquisitions and such information is unlikely to be useful for investors.

(ii) Challenging for entities to disclose information around expected synergies in an acquisition

Some entities may be reluctant to disclose information around expected synergies in an acquisition as such information may be commercially sensitive.

In addition, we foresee that it would be challenging for entities to quantify potential synergies, track this figure subsequently and determine when the synergies are expected to be realised. For instance, smaller entities may not have a robust valuation and data collection model to track such information. This may result in larger entities disclosing information around expected synergies which is of a higher quality as compared to smaller entities.

(iii) Challenging for auditors to audit entities' claims of specific performance of their acquisitions

We note that it may be challenging for auditors to verify or even obtain reasonable assurance that entities' claims of performance of their acquisitions are not materially misstated. For example, if entities' management monitors performance of acquisitions using non-financial metrics, it may be more difficult for auditors to verify such information.

The parameters and assumptions used in management metrics when assessing subsequent performance of acquisitions require the use of significant management judgment on the entity's part. Auditors may lack the experience and knowledge to question whether such assumptions used are reasonable.

Similarly, for the same above reasons, it would be challenging for auditors to verify and obtain reasonable assurance that the expected range of synergies attained in an acquisition are not materially misstated.

In addition, requiring auditors to verify entities' metrics on performance of acquisitions will likely result in increased audit costs for entities.

(iv) Current impairment model is inadequate as it neither captures the consumption of acquired goodwill over time nor addresses the shielding effect

In the DP, the Board acknowledges that the impairment of goodwill may be delayed because goodwill may be shielded from impairment, for example, the headroom of a business with an acquired business is integrated. This headroom results because not all of the value of a business is recognised on the acquirer's balance sheet. As a result, the internally generated goodwill of the acquirer is 'implicitly offset' against any acquired goodwill, resulting in no impairment of goodwill. However, the Board's proposals did not offer solutions on how to resolve this shielding effect. In addition, our view is that acquired goodwill does not have an indefinite useful life and should be consumed over time.

Therefore, we urge the Board to revisit the impairment model of goodwill as under the current model, the impairment losses appear to occur 'too little, too late'.

Should you require any further clarification, please feel free to contact myself, Mr Marcus Chan, Assistant Manager, TECHNICAL: Financial & Corporate Reporting, from ISCA via email at jumay.lim@isca.org.sg or marcus.chan@isca.org.sg.

Yours faithfully,

Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance