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AUTORITÉ
DES NORMES COMPTABLES

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RO n°7

Chairman of ANC

à

Mr Andreas Barckow
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Exposure Draft Business Combinations: Disclosure, Goodwill and Impairment - ANC Comment Letter

Dear Chair, *dear Andreas*

The Autorité des Normes Comptables (ANC) welcomes the opportunity offered by the IASB to comment on its Exposure Draft published on 14 March 2024 on Business Combinations: Disclosure, Goodwill and Impairment.

Although French stakeholders have mixed views on this Exposure Draft, the ANC supports the IASB's general objective of improving disclosures on business combinations and appreciates the efforts made to express balanced proposals in the present Exposure Draft, in particular through the implementation of concepts such as strategic business combinations, commercially sensitive information and management view, but also through the nature of the information to be disclosed and the attention paid to the cost of producing the information.

Below is a brief summary of our remaining concerns regarding the disclosures proposals, which are set out in more detail in the appendix to this letter.

- The ANC considers that the information required by the Exposure Draft is only relevant for entities with public accountability and recommends that the scope of the proposals be identical to that of IAS 33 or IFRS 8 (paragraphs 1-3).
- While supporting the IASB's proposal to disclose the strategic rationale of a business combination in the financial statements, the ANC considers, after careful consideration of the pros and cons, that the main objectives and targets associated with a business combination should only be disclosed in the financial statements to the extent that they justify all or part of an item recognised in the financial statements (paragraphs 4-8).

- The concept of a strategic business combination, which is rightly at the heart of the IASB's proposals, attracted particular attention and, in order to contribute to the improvement of the IASB's proposals, the ANC suggests that the qualitative and quantitative criteria defining a strategic business combination be indicative, so that the identified transactions are consistent with the entity's overall business strategy (paragraphs 10-12). The ANC also makes a number of observations aimed at improving the relevance of these criteria (paragraphs 13-17).
- The ANC notes that once the stage of identifying strategic business combinations has been completed, an entity should move directly to the stage of preparing disclosures, without going through a stage of identifying the level of management reviewing it. The effectiveness of the proposals in the Exposure Draft would therefore be improved by deleting the provisions relating to the identification of key management personnel (paragraphs 18-22).
- The introduction of an exemption from providing certain information subject to justification of serious prejudice is much welcome, and the ANC expresses comments aimed at improving its definition (paragraphs 23-35).
- The ANC fully supports the IASB's approach of proposing information that is consistent with the management view (paragraphs 36-45). However, the proposal to require the publication of information that has been prepared but not reviewed is not consistent with this principle and should be withdrawn.

In the section of the Exposure Draft improving the effectiveness of the impairment test, the ANC supports the IASB's approach of simplifying the implementation of the test, in particular by identifying ways and means to reach better alignment between the cash flows used by management and the cash flows prepared for the test. The ANC notes that the IASB is proposing a number of targeted changes to this end (paragraphs 64-69), without however addressing certain prevalent difficulties observed in France such as the inclusion of leases (paragraph 62).

The ANC therefore encourages the IASB to explicitly direct its work towards the search for a general principle that would view the business plan prepared by management as the basis of the impairment test, while requiring consistency with the assumptions applied in the test (paragraph 63).

Should you wish to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,



Robert Ophèle
ANC Chair

Appendix

Business Combinations: Disclosure, Goodwill and Impairment - ANC Comment Letter

The Appendix is structured as follows:

- . Question 1 - Disclosures: Performance of a business combination (paragraphs 1-8);
- . Question 2 - Disclosures: Strategic business combinations (paragraphs 9-22);
- . Question 3 - Disclosures: Exemption from disclosing information (paragraphs 23-35);
- . Question 4 - Disclosures: Identifying information to be disclosed (paragraphs 36-45);
- . Question 5 - Disclosures: Other proposals (paragraphs 46-51);
- . Question 6 - Changes to the impairment test (paragraphs 52-61);
- . Question 7 - Changes to the impairment test: Value in use (paragraphs 62-69);
- . Question 8 - Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures (paragraph 70); and
- . Question 9 - Transition (paragraphs 71-72).

Question 1 - Disclosures: Performance of a business combination

Improving information for users

1. The ANC shares the IASB's objective of improving users' information on business combinations.
2. The proposals outlined in the 2024 Exposure Draft appear to be more balanced compared with those in the 2020 Discussion Paper, particularly with regard to the introduction of the concepts of strategic business combination and commercially sensitive information, the nature of the information to be disclosed and the cost of producing such information.
3. Nevertheless, the ANC believes that disclosures required by the Exposure Draft are relevant only for entities with public accountability. The ANC therefore recommends that the scope of the proposals of the Exposure Draft be the same as that of IAS 33 or IFRS 8.

Specific nature of information and location of disclosures

4. The IASB proposes to require, subject to an exemption, the publication of disclosures on the expected and actual performance of strategic business combinations. Such disclosures would be centralised in the financial statements, while some, but not most preparers already disclose part of such information in various publications in the year of acquisition.
5. Over its review of this proposal, the ANC noted that some disclosures related to business combinations may be IFRS-based measures, while others, such as a synergy, a market share or a competitive position, qualify as non-IFRS performance measures. In practice, such measures are likely to raise difficulties for auditors, in particular with respect to the nature of diligences necessary to meet the expected level of assurance, the litigation risk resulting from expressing an assurance on certain non-financial measures, certain forward-looking estimates without past experience, or certain highly subjective and judgmental synergies with no commonly shared definition, while the absence of differentiation with IFRS-based measures may be a source of confusion for regulators and users of financial statements.
6. To avoid such difficulties and risks of confusion, the ANC considers that an acquirer should be required to separately identify non-IFRS performance measures and disclose their basis for preparation and key assumptions.
7. In addition, the ANC notes that the objectives of the present Exposure Draft raise several questions about the location of disclosures. The IASB appears to be pursuing two distinct objectives: on the one hand, to require an acquirer to justify the underlying logic of a business combination and on the other, to provide explanations on goodwill in order to assess the risks associated with the business combination. In practice, while certain disclosures justify items recognised in the financial statements, others are not reflected in goodwill, for example some synergies specific to the acquirer which had no impact on the acquisition price, or the objective of achieving a certain competitive position.
8. The ANC therefore supports the IASB's proposal to disclose in the financial statements the strategic rationale of the business combination. However, the key objectives and targets associated with this strategic rationale should only be disclosed in the financial statements to the extent that they justify all or part of an item recognised in the financial statements, e.g., a synergy that qualifies as a key objective of the business combination and justifies all or part of the amount of goodwill, or a certain level of margin reflected in the entity's operating cash flows. Establishing that link is considered to be a judgement by the entity.

Question 2 - Disclosures: Strategic business combinations

Strategic business combination (IFRS 3, draft paragraph B67C)

9. The Exposure Draft's proposals for identifying a strategic business combination are based on qualitative and quantitative criteria described in draft paragraph B67C. The qualitative criteria consider the acquirer entering a new major line of business or geographical area of operations. The quantitative criteria include a 10% threshold intended to identify the point at which certain aggregates of the acquired entity, i.e. consolidated operating profit or loss, or consolidated revenue, or consolidated assets, represent a significant proportion of the aggregates of the acquiring entity. Paragraph BC54 of the Exposure Draft's Basis for Conclusions explains that business combinations identified in this way may qualify as strategic, i.e. the failure to meet any one of the entity's acquisition-date key objectives would put the entity at a serious risk of failing to achieve its overall business strategy.
10. The ANC supports the IASB in its approach of identifying, within material business combinations, a relevant subset of strategic business combinations, on which specific disclosures should be provided to users of the financial statements.
11. While acknowledging the difficulty of proposing a robust definition of strategic business combinations, the ANC considers that the proposals in the Exposure Draft need to be improved. Indeed, during its review of these proposals, the ANC's stakeholders were struck by the apparent divergence in intent between the selective view of strategic business combinations in paragraph BC54 of the Basis for Conclusions and the broader scope of draft paragraph B67C.
12. After listening to the views of its various stakeholders, the ANC considers that the definition of a strategic business combination may only be relevant if the transactions it captures are consistent with the entity's "overall business strategy", to quote paragraph BC54. A mechanical approach based exclusively on compliance with criteria, even subject to the overarching materiality principle, is unlikely to achieve such an objective. Criteria should guide the identification of transactions, but not constrain it. To this extent, the ANC considers that qualitative and quantitative criteria are useful, but that they should be indicative and not binding.
13. This principle being set, the ANC wishes to express several comments on the qualitative and quantitative criteria proposed in draft paragraph B67C.
14. The Exposure Draft applies the qualitative concept of "major line of business or geographical area of operations", borrowed from IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to the identification of strategic business combinations. The ANC observes the application of this concept within IFRS 5 already resulted in diversity in practice. The ANC therefore believes that this concept should be further clarified in the context of identifying strategic business combinations. Firstly, the ANC recommends clarifying that the term "major" applies to both line of business and geographical area. Secondly, it is not clear on how to apply this concept in situations where the entity creates a new major line of business or enters a new major geographical area through a series of individually immaterial business combinations participating in a single strategic movement.
15. With regard to the 10% quantitative rule, the ANC notes that this threshold could affect preparers in different ways. Firstly, larger groups are less likely to be affected than smaller groups in a growth phase. Besides, some stakeholders observed that Commission Delegated Regulation 2019/980 only requires the preparation of proforma information when a threshold of 25% is crossed, whereas the 10% threshold borrowed from IFRS 8 may lead to the selection of too broad a subset of transactions. Finally, other stakeholders pointed out that in some cases, management may consider a transaction to be strategic below a threshold of 10%. The diversity of these views confirms that quantitative criteria should be indicative and non-binding in order to leave room for judgement.

16. The natures of the aggregates, i.e. consolidated operating profit or loss, or consolidated revenue, or consolidated assets, to which the 10% quantitative threshold applies, were reviewed and are considered as relevant, except for the consolidated operating profit or loss which is too volatile, or could be low in some industries, and therefore could lead to capture too small business combinations. The ANC proposes that the operating profit or loss threshold be removed. However, to ensure that this proposal does not result in too short a list of indicators and to provide a useful basis for identifying strategic business combinations, the ANC suggests opening the possibility of using other indicators, as in ESMA's guidance on the application of Commission Delegated Regulation 2019/980, if the indicators used give an abnormal result or are not appropriate for the entity.
17. Finally, the ANC invites the IASB to resolve the divergence highlighted in paragraph 11 of the present Comment Letter between paragraph BC54 of the Basis for Conclusions and draft paragraph B67C of the Exposure Draft, by confirming the pre-eminence of the principle stated in paragraph BC54, as well as its judgmental dimension.

Key management personnel (IFRS 3, draft paragraph B67A)

18. The Exposure Draft proposes that the information to be disclosed about strategic business combinations should be that reviewed by the acquirer's key management personnel. By choosing this level of management defined by IAS 24, *Related Party Disclosures*, rather than the chief operating decision maker defined by IFRS 8, *Operating Segments*, the IASB expects this proposal to ensure greater comparability of published information, regardless of the internal organisation of the acquirer.
19. Draft paragraph B67A considers it useful, after a strategic business combinations was identified in accordance with draft paragraph B67C, to add a filter corresponding to the level of review of the information to be disclosed.
20. The concept of key management personnel is borrowed from IAS 24. Although this concept often proves to be more complex to apply in practice than that of chief operating decision maker in IFRS 8, it is more likely to ensure the expected comparability of published information. Also, in some circumstances, the concept of chief operating decision maker may represent too high a level and lead to the omission of certain disclosures on those strategic business combinations whose performance is followed at a lower level by the segment's key management personnel. For instance, an entity's CEO may be identified as the entity's chief operating decision maker, while the performance of a strategic business combination within an operating segment is reviewed by the Vice-President in charge of that segment.
21. However, by applying to strategic business combinations a concept initially designed to identify related parties, the proposal in the Exposure Draft runs the risk of missing the identification of the relevant level of information review. In addition, the diversity of organisations is likely to expose acquirers to practical difficulties in identifying the relevant level of information review, particularly where information is reviewed by a committee or an individual, or where information is reviewed by country or by activity.
22. Having considered these practical difficulties, the ANC examined how useful the criterion relating to the relevant level of review of the information was, and noted that the proposals in draft paragraph B67A, as well as those in the rest of the Exposure Draft, would work without such a filter. As a consequence, the ANC recommends deleting the criterion proposed in the second sentence of draft paragraph B67A, according to which "the information to be disclosed is the information reviewed by the acquirer's key management personnel (as defined in IAS 24, *Related Party Disclosures*)" and removing the references to the concept of key management personnel from all the proposals in the Exposure Draft.

Question 3 - Disclosures: Exemption from disclosing information

Concept of serious prejudice (IFRS 3, draft paragraph B67D)

23. The IASB's proposals include an exemption designed to avoid the publication of certain disclosures proposed in the Exposure Draft, except for disclosures relating to the strategic rationale at the acquisition date and post-acquisition performance actuals, whose publication is always required. The exemption may be exercised by the acquirer where disclosing an item of information would be seriously prejudicial to the achievement of any of the acquirer's acquisition-date key objectives.
24. The ANC welcomes the IASB's efforts to define and frame the situations in which the publication of information relating to a business combination could be detrimental. However, information that is likely to be seriously prejudicial is not limited to those that might impair the entity's ability to achieve its key objectives defined at the acquisition date. Indeed, the publication of certain information with a social or legal dimension may be a source of serious prejudice, without jeopardizing the key objectives defined at the acquisition date.
25. For example, an entity acquires a competitor to take control of its technology. The acquirer plans to implement cost synergies at a later date through a restructuring plan, whose announcement is legally subject to prior consultation with employee representative bodies. The restructuring plan, i.e. the means of achieving future cost synergies, is distinct from the key objective of controlling the technology. Nevertheless, a risk of serious prejudice is likely to arise from the "offence of obstruction" that would result from publishing disclosures on a restructuring plan on which employee representative bodies were not consulted yet.
26. In addition, draft paragraphs B67D-B67G of the Exposure Draft limit the application of the exemption only prejudice associated with the objectives of the business combination, whereas the Basis for Conclusions refer to the already broader concept of "commercially sensitive" information. The ANC therefore encourages the IASB to define a concept of "sensitive" information that could serve as a justification for exercising the exemption, encompassing not only prejudice related to the objectives of the business combination, but also commercial, social and legal prejudice.

Justification of the exemption (IFRS 3, draft paragraphs B67D(a) and B67E)

27. Draft paragraph B67D(a) of the Exposure Draft provides that an acquirer that decides to apply the exemption should describe the "specific reason" why disclosing the information would be seriously prejudicial. In addition, draft paragraph B67E explains that, before exercising the exemption, the acquirer should consider ways of disclosing the required information at a sufficiently aggregated level. If the aggregation of information does not eliminate the risk of prejudice, the acquirer is allowed to exercise the exemption, but will disclose that fact, as well as the reasons why the item of information is not disclosed.
28. While it seems clear that the "reasons" in draft paragraph B67E are intended for all users of the financial statements, the "specific reason" in draft paragraph B67D(a) may be intended for only auditors and regulators. In addition, the level of granularity required for the "specific reason" in draft paragraph B67D(a) appears to be greater than for the "reasons" in draft paragraph B67E.
29. The ANC therefore invites the IASB to clarify the relationship between draft paragraphs B67D(a) and B67E, both in terms of the addressees and the granularity of the justification for the exemption. In any event, it would not be desirable that the information disclosed would expose the entity to a risk equivalent to the one it is seeking to avoid by exercising the exemption.
30. In addition, while the ANC appreciates the approach proposed by the IASB in draft paragraph B67E, whereby the exercise of the exemption should be considered only after all the possibilities of complying with the disclosure requirements of the standard have been considered, it should be clear that the use of aggregation should not result in obscuring the information provided.

Consistency between the proposals in the Exposure Draft and IAS 37

31. The ANC notes that the principle and application of the exemption proposed by the Exposure Draft are similar to the requirements of paragraph 92 of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which exempts an entity from disclosing the information required by the standard in the extremely rare cases where disclosure would seriously prejudice the entity's position in a dispute.

32. In addition to the above considerations on the justification of the exemption, the ANC recommends that the IASB ensures that the proposals in the Exposure Draft regarding the justification of the exemption do not require a higher level of granularity than that required by IAS 37.

Continuous assessment of the eligibility for the exemption (IFRS 3, draft paragraph B67G)

33. Draft paragraph B67G provides that an acquirer that has exercised the exemption should reassess at the end of each reporting period whether the item of information is still eligible for the exemption.
34. The ANC observes that the implementation of this proposal is likely to be costly and burdensome and therefore suggests that this proposal be removed.

Application guide

35. The ANC considers that the proposed application guide is currently limited and that it could usefully be developed to illustrate the conditions for applying the exemption and the way entities could disclose the reasons why they have applied the exemption.

Question 4 - Disclosures: Identifying information to be disclosed

Integration (IFRS 3, draft paragraph B67A)

36. The ANC appreciates that the IASB's proposals were drafted in accordance with the underlying principle of disclosing information consistent with a management approach on business combinations, rather than requiring the disclosure of specific indicators that would not correspond to its monitoring of performance. In particular, if the acquired business is integrated within the acquirer's existing businesses, management may decide to monitor performance at the combined level. In this case, the disclosures should be prepared at the combined level.
37. The ANC considers that information disclosed at the combined level is consistent with the underlying management approach and relevant to users of financial statements.

Monitoring of information over time (IFRS 3, draft paragraph B67B)

38. The Exposure Draft proposes that the actual performance of a business combination be disclosed for as long as it is reviewed by the acquirer's management. If the acquirer's management does not plan to review this information or ceases to review it before the end of the second financial year following the year of acquisition, the acquirer shall disclose this fact and provide the reasons.
39. Many preparers consulted as part of the ANC's Working Group confirm the existence of processes for setting and monitoring objectives over time for business combinations. Some, whose business model involves business combinations achieved in stages, explain that a system for setting and monitoring objectives may already be in place in the period before control is obtained. After control is obtained, the duration of the plans under which targets are set varies and depends on the specific features of acquired businesses. Some preparers note that the objectives defined at the acquisition date may be revised at a later date and that the performance of a business combination may be monitored over time on the basis of objectives adjusted over successive plans. Finally, some preparers confirm that some or all of the objectives set at the acquisition date may cease to be reviewed, particularly when the circumstances in which a business combination takes place differ significantly from those that had been anticipated.
40. The proposal in draft paragraph B67B of the Exposure Draft to require information to be disclosed for as long as its actual results are reviewed against the objectives set at the acquisition date is therefore consistent with the underlying principle of disclosure in accordance with the management approach, insofar as the review period is not indefinite, but limited to the duration of the initial plan defined at the acquisition date.
41. The proposal in draft paragraph B67B(b) of the Exposure Draft to disclose the fact and reasons why a target set at the acquisition date ceases to be reviewed is considered relevant to users of financial statements.
42. Similarly, the limit corresponding to "the end of the second annual reporting period after the year of acquisition" set by draft paragraph B67B(b) to state that an acquirer has ceased to review a target set at the acquisition date is considered reasonable.

Disclosure of non-reviewed information (IFRS 3, draft paragraph B67B(b))

43. When performance measures relating to a strategic business combination continue to be prepared and received by management using the original measurement metric, but the comparison with the objectives defined at the acquisition date is no longer reviewed, the Exposure Draft proposes that this situation be disclosed and that the information prepared and received, but not reviewed, be published.
44. The proposal in draft paragraph B67(b) of the Exposure Draft to continue to disclose information prepared and received, but not compared with the objectives at the acquisition date, presents a conflict with the underlying principle of reporting in accordance with the management approach. As noted above, the circumstances in which a business combination takes place may be so different from those anticipated, that some or all of the objectives set at the acquisition date cease to be relevant and are no longer reviewed. As a result, information that is deemed irrelevant by management cannot be relevant to users of the financial statements either. The ANC therefore proposes that this proposal be withdrawn.

45. If, however, the IASB intends to maintain this proposal, the ANC suggests improving the consistency between draft paragraph B67B(b) and the decision tree in Figure 1, illustrating the application of this paragraph. In particular, it is not clear in the decision tree whether the requirement to disclose an information that is no longer reviewed ends at the end of the second financial year following the year of acquisition, or when the information is no longer prepared.

Question 5 - Disclosures: Other proposals

46. As part of the present Exposure Draft, paragraph B64 of IFRS 3 was amended in several respects, in particular by the addition of draft paragraph (ea), which prescribes additional disclosures on the synergies expected from combining the businesses of the acquiree and the acquirer.
47. The locution "expected synergies from combining operations of the acquiree and the acquirer" used in draft paragraph (ea) is identical to that in the existing paragraph (e) dealing with the qualitative description of factors that make up the goodwill recognised. Draft paragraph (ea) therefore seems to require the disclosure of information justifying the price paid, which is not reflected in the proposed example illustrating draft paragraph B64(ea). To that extent, the ANC believes that the disclosure requirements relating to expected synergies should only apply to synergies that (a) qualify as a key objective of a strategic business combination; or (b) justify a material part of the goodwill resulting from the acquisition.

Finite or indefinite synergies (IFRS 3, draft paragraph B64(ea)(iii))

48. The Exposure Draft proposes that information about a business combination should be disclosed about the period over which the benefits of synergies are expected to last. To meet this requirement, the acquirer should specify whether the expected benefits of synergies will be finite or indefinite.
49. The ANC was unable to identify any situation where the benefits of a synergy could be limited in time. As these benefits are by nature unlimited, the ANC recommends removing the distinction between finite and indefinite synergy benefits, unless the IASB is able to provide some examples of synergies that are actually limited in time.

Pro forma disclosures (IFRS 3, draft paragraph B64(q)(ii))

50. Draft paragraph B64(q)(ii) of IFRS 3 requires the preparation of pro forma information, as if all business combinations that occurred during the year had taken place at the beginning of the annual reporting period. The IASB supplements these provisions by proposing that the acquirer develops an accounting policy to prepare this information, to enable users of the financial statements to forecast the future performance of the combined entity.
51. The ANC approves of the IASB's intention to improve information for users of financial statements on the preparation of pro forma data. The ANC recommends publishing the basis of preparation of pro forma data, rather than an accounting policy. Indeed, the way an entity prepares pro forma information is highly dependent upon the facts and circumstances of the business combination, the stage of completion of the purchase price allocation exercise, as well as the nature and quality of information available for the pre-acquisition period. In addition, the ANC believes that developing an accounting policy with which the entity would be required to comply is of limited usefulness, considering that there is no need for comparison of the effects of a business combination with the effects of previous ones.

Question 6 - Changes to the impairment test

Reducing shielding (IAS 36, paragraphs 80-81)

52. The IASB proposes amending paragraph 80(a) of IAS 36 to refer to the level at which the activity associated with the goodwill is monitored, rather than the level at which the goodwill is monitored, as the goodwill itself is not monitored. The application of paragraph 80(a) is supplemented by the description of a two-step approach, described in draft paragraph 80A: first identify the cash generating units (CGUs) or groups of CGUs benefiting from the synergies (80A(a)); then identify the lowest level at which financial information is available and regularly reviewed by management to monitor the acquired business (80A(b)). Draft paragraph 80B specifies that the highest level of goodwill allocation - that of the operating segment as defined by IFRS 8 - may only be retained after applying the approach described in paragraph 80(a). Finally, several proposed amendments to paragraph 81 are intended to improve the link between the concepts of goodwill, acquired business and CGU.
53. In its Comment Letter on the 2020 Discussion Paper, the ANC expressed the view that its stakeholders were not convinced that the impairment test would not work as intended and fail to provide relevant and timely information. Nevertheless, the ANC agreed that there might be situations where impairments were avoided because of shielding effect or management over-optimism. Therefore, the ANC supports the IASB seeking to draft improvements to the standard in order to limit such situations.
54. The IASB proposes amendments to achieve a more faithful application of the original principle of goodwill allocation. The ANC considers that the addition of draft paragraph 80B, intended to prevent the operating segment from being considered as the default allocation level, is relevant. Nevertheless, while the general objective is clear, several proposed amendments create uncertainties that could make it difficult to achieve.
55. The draft amendment to paragraph 80(a) replaces the statement "the lowest level within the entity at which the goodwill is monitored" by "the lowest level within the entity at which the business associated with the goodwill is monitored". The ANC considers that this proposal is relevant. However, it would be useful to clarify how the term "business", which is also used in the proposals in paragraphs 80A and 81, relates to the concept in IFRS 3, *Business Combinations*, in the context of allocating goodwill to CGUs or groups of CGUs.
56. In the draft amendment to paragraph 80A(b), the ANC agrees with the proposed combination of the criterion of availability of financial information with the criterion of review by management. Indeed, financial information may be available at a very detailed level, without being specifically reviewed. However, for the sake of consistency with paragraph 80A(a), it would be desirable for paragraph 80A(b) to also refer, in addition to the already mentioned "CGUs", to "groups of CGUs" for which financial information is available and reviewed by management.
57. Besides, the absence of examples or application guidance on the implementation of paragraph 80A, justified on several occasions in the Basis for Conclusions by the diversity of the organisation of entities, is regrettable. The articulation of paragraphs (a) and (b) of draft paragraph 80A could usefully be illustrated by examples that would focus on the existence or absence of synergies between CGUs or groups of CGUs, as well as the level at which the business is managed, without entering into considerations relating to the entity's organisation, which are indeed likely to reduce the relevance of these examples.
58. For example, it might be useful to develop an example based on the case of an entity made up of the existing CGUs CGU 1 and CGU 2, which acquires CGU 3 and in which financial information is available at the level of each of the CGUs. This example could explain how the goodwill arising from the acquisition of CGU 3 should be allocated, depending on: (a) the existence or absence of synergies between the three CGUs; and (b) the level at which the business associated with the goodwill is monitored. This example, which is open to several scenarios, would make it clear that the mere expectation of synergies is not sufficient to justify the allocation of goodwill at the highest level, in line with the objective of draft paragraph 80B.
59. Also, it may be useful to develop an example to illustrate when it would be appropriate to use the operating segment as the appropriate level for allocating goodwill and when a lower level would be appropriate.

Reducing management over-optimism (IAS 36, paragraph 134(a))

60. The amendment to paragraph 134(a) of IAS 36 proposes to specify that, when goodwill is associated with a CGU or group of CGUs, the reportable segment in which the CGU or group of CGUs is located should be disclosed, in addition to the provision already required for the amount of goodwill associated with this CGU or group of CGUs.
61. The ANC considers that the publication of this information is relevant for users of the financial statements, but failed to understand how this proposal is likely to reduce management over-optimism.

Question 7 - Changes to the impairment test: Value in use

62. The ANC supports the IASB's efforts to propose changes to the impairment test in IAS 36 to improve the effectiveness of the test and reduce the cost and complexity of applying the test, in particular by promoting the convergence between the business plan prepared by management and the cash flows used for the purpose of the impairment test. The ANC however regrets that no proposal is made in the present Exposure Draft to clarify how lease assets and liabilities recognised in accordance with IFRS 16, *Leases*, should be taken into account in the impairment test. The practical difficulties associated with this issue, particularly in terms of calculating value in use and determining the discount rate, have been raised repeatedly by the ANC's stakeholders and need to be addressed.
63. Beyond the case of IFRS 16, there might be other sources of differences between how management prepares the business plan and what is required by IAS 36, and new differences might also arise from future standards. The ANC therefore encourages the IASB to deepen its research towards an overarching principle that would place the business plan prepared by management as the basis of the impairment test, while requiring consistency with the assumptions applied in the test.

Uncommitted future restructuring, improvements or enhancements of an asset (IAS 36, paragraphs 33(b) and 44)

64. The proposed amendments to paragraphs 33(b) and 44 of IAS 36 remove the restriction that applied so far to the impacts of uncommitted future restructurings, and improvements or enhancements to an asset's performance, on the cash flows used to calculate value in use in an impairment test. Draft paragraph 44A(b) specifies that these impacts are taken into account if the asset, considered in its current state, has the current potential to be restructured, improved or enhanced.
65. The ANC welcomes the IASB's intention to simplify the impairment test and, in particular, to make the calculation of value in use more convergent with the forecasted cash flows used by management.
66. The ANC examined the consequences of taking into account, in the calculation of value in use, cash flows related to uncommitted future restructurings. The ANC is supportive of the IASB's proposal. However, if the inclusion of uncommitted future restructurings qualifies as a key assumption in the test, attention should be drawn on the interactions between the disclosure requirements on key assumptions in IAS 36 and the local regulations on information surrounding restructurings.
67. The ANC understands that the IASB is seeking to reconcile the existing principle of testing assets in their current condition with the recognition of improvements or enhancements to an asset's performance in value in use, by introducing in draft paragraph 44A(b) the new concept of "current potential" for an asset to be restructured, improved or enhanced. This concept, which undoubtedly presents interesting potential, would benefit from further clarification to avoid abuse and enable it to be applied in practice, in particular, to identify the cases in which improvements or increases in an asset's performance should be taken into account.

Cash flows after income taxes (IAS 36, paragraph 50)

68. The proposed amendment to paragraph 50 of IAS 36 removes the prohibition on excluding income taxes when calculating value in use. The amendment to paragraph 51 specifies that if a test is carried out after income taxes, consistency is required between the gross cash flow and the discount rate. Finally, the proposed amendments to paragraphs 130(g) and 134(d)(v) require disclosure of whether the discount rate is determined before or after income taxes.
69. The ANC welcomes the proposals in the Exposure Draft that accept the possibility of performing the impairment test on the basis of cash flows calculated after income taxes. This proposal recognises the acceptability of a method that has become established in practice. However, the ANC encourages the IASB to provide additional guidance on how income taxes should be taken into account in the impairment test, so that performing the test before or after income taxes leads to equivalent outcomes.

Question 8 - Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures

70. The ANC believes that disclosures required by the Exposure Draft are relevant only for entities with public accountability.

Question 9 - Transition

71. If the allocation of goodwill is revised in accordance with the guidance in draft paragraphs 80A and 80B of IAS 36, it would be preferable for any impact on the outcomes of impairment tests to be recognised retrospectively in equity at the beginning of the period of initial application, rather than prospectively in profit or loss after the date of initial application.
72. Furthermore, the transition provisions do not provide any guidance on the method that should be applied in the event of a reallocation of goodwill in application of the clarifications provided by paragraphs 80A and 80B. A reference to a method similar to that provided for in the current paragraph 87 of IAS 36 in the event of a partial disposal of a CGU containing goodwill could usefully be suggested.