UK Shareholders' Association
UKSA, 1 Bromley Lane, Chislehurst, BR7 6LH
Phone: 01689 856691
Email: officeatuksa@gmail.com
Web: www.uksa.org.uk

ShareSoc
UK Individual Shareholders
Suite 34, 5 Liberty Square, Kings Hill,
West Malling, ME19 4AU
Phone: 0333-200-1595 Email:
info@sharesoc.org
Web: www.sharesoc.org

31st December 2020

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Via email: commentletters@ifrs.org

Dear Sir/Madam

Re: The IASB's Discussion Paper on Business Combinations – Disclosures, Goodwill and Impairment (DP/2020/1)

1. Our key messages

1.1. We support the Board's overall objective of enhancing disclosure on acquisitions and their subsequent performance. Current disclosure is extremely unsatisfactory. As a result we agree with the Board's preliminary views set out in paragraph IN9 with the modifications and qualifications set out in this letter. We would also argue that there is a need to keep cumulative and separate goodwill and impairment disclosures for each acquisition.

1.2. We do not regard testing goodwill for impairment as either robust or desirable.

1.3. We concur with the Board's opposition to the reintroduction of goodwill amortisation.

1.4. We do not see any need to require companies to report total equity excluding goodwill as this number is easy to derive if required.

1.5. We regard separate classifications of all intangibles as useful and, as a minimum, we would like to see separate disclosure of internally generated intangible assets and those created during the acquisition consolidation process.

2. Introduction

2.1. Our comments on the discussion are set out in our key messages above and in the general discussion and answers to your questions section below.

2.2. UKSA and ShareSoc represent the interests of individual shareholders. In addition to our own members, there are 5 million people who own shares and have investment accounts with platforms in the UK. The Office for National Statistics estimates that individual investors own 13.5% of the UK stock market by value[1]. In addition to this there are many more individuals who have money invested in shares

1 Ownership of UK quoted shares - Office for National Statistics (ons.gov.uk)

via funds, pensions and savings products such as employee share ownership schemes.

2.3. Our comments are based on our members' use of annual reports and financial statements. Our experience is not necessarily one of technical expertise but more of an interested well informed user of financial statements. We believe individual shareholders obtain a lot of their information from audited financial statements and therefore will be supportive of your proposals on business combinations.

3. General discussion and answers to your questions

3.1. We are supportive of the Board's research project on goodwill and impairment following its post implementation review ("PIR") of IFRS 3 "Business Combinations"; and of the project's objective to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. We agree that better information would help investors assess the performance of companies that have made acquisitions. Better information would also be expected to help investors more effectively hold a company's management to account for management's decisions to acquire those businesses.

3.2. We believe that audited financial statements are one of the best sources of reliable and reasonably accurate company or group financial performance information. This information needs to be relevant, material, concise, consistent, clear and understandable and comparable between years and comparable with other organisations. However, in the area of business combinations, we are not being given such information.

3.3. While we recognise that IFRS 3 goes some way to providing disclosures about acquisitions, like your PIR we also think these disclosures are not sufficient and therefore welcome the Board's efforts to improve this situation.

3.4. Our comments and answers to your specific questions are provided in the context of our concerns about how business combinations are currently reflected in financial statements. Our main concerns are summarised as follows.

3.4.1. The financial statements do not always provide in one place clear information about each acquisition, which should include:

3.4.1.1. how the acquiree has been valued

3.4.1.2. what the total consideration was

3.4.1.3. how the consideration was paid

3.4.1.4. what assets and liabilities at their carrying amount, as assessed in accordance with relevant accounting standards, were acquired.

3.4.2. They often provide little meaningful information about the strategies and business objectives of acquisitions, how these will be monitored and assessed and over what time period. This can make it impossible for investors to hold managers in the acquiring company to account.

3.4.3. They do not provide clear time series information (eg for at least five years or ten years), as required for other fixed assets, such as total goodwill acquired and split between individual acquisitions, annual movements in goodwill arising on acquisitions or their disposals, total impairments made to goodwill and annual movements in impairments.

3.4.4. They do not always provide clear information in the period of acquisition of the acquiree's income, expenditure, cash flows, assets and liabilities included in the consolidated primary statements.

3.5. You list in Table 1.1 the feedback you received from the PIR. We agree with the feedback that it is difficult to assess the performance of an acquisition. We are surprised that many preparers find it difficult to provide information that is helpful to assess performance as a lot of this will be available in acquisition prospectuses or, if not, should have been prepared during management's assessment of the acquiree. We have mixed views on the usefulness of impairment adjustments and/or amortisation as it is generally accepted that goodwill is difficult to measure and its creation is simply the difference or balance between consideration and the measurable net assets received on consolidation. Therefore we agree that it is helpful to separate out from goodwill and recognise other intangible assets.

3.6. To answer your question 1, we support the Board's decision to address the topic and we agree that business combination disclosure is unsatisfactory and needs to improve.

3.7. In answer to your questions 2 to 5, we agree that the board should add and develop disclosures and disclosure objectives to improve the information available to investors and address some of the problems we have outlined in 3.4 above. We are particularly interested in improvements to performance reporting as this should increase our ability to hold companies and their management to account. We believe that the improvements to standards of performance reporting should help to ensure that companies and their management will be more cautious in bidding to take over other organisations. Commercial sensitivity is in our view never a good excuse for not providing information especially for publicly listed companies who should be transparent to the market.

3.8. In response to your questions 6, 9 and 10 we agree 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. This is mainly because we cannot see any impairment test being effective. Goodwill is a balancing figure with little practical meaning and, as seems agreed in your DP, it is inherently difficult to value. However we would support any move to reduce the time spent on assessing goodwill impairment, especially if the disclosures to improve the reporting of business combinations, their performance over time and holding management to account are introduced to compensate.

3.9. In reply to your question 7, we concur with the Board's opposition to the reintroduction of goodwill amortisation for similar reasons set out in our response above to question 6.

3.10. To answer your question 8, there is no reason to provide equity less goodwill on the balance sheet as this is something readers of financial statements are able to calculate for themselves from balance sheet information.

3.11. Following on from 3.8 above and in response to your question 11, we can see benefits in simplifying the process of impairment assessment if goodwill was left on the balance sheet for as long as it is felt the acquirees are part of the combined business. It will also compensate if disclosures to improve the reporting of business combinations, their performance over time and holding management to account are introduced.

3.12. To answer your question 12, we support the Board’s proposal not to allow some intangible assets to be included in goodwill mainly because we wish to see differentiation between identifiable non goodwill intangibles and the balancing figure of goodwill itself.

3.13. In response to question 13, we support convergence between IFRS and US GAAP developed by FASB but only if the convergence is upward towards the higher quality standard. We do not support IFRS converging with US GAAP if this results in any dilution of their quality.

3.14. In response to question 14, we would like to see separate disclosure of internally generated intangible assets and those created or marked up to fair value during an acquisition. Where each class of intangible asset is material, these should also be separately disclosed.

4. If you have any questions or require clarification of our comments, please contact Charles Henderson at charles.henderson@uksa.org.uk and Cliff Weight at cliff.weight@sharesoc.org. We would be happy to have a follow up meeting if required.

5. We understand our comments will be on the public record and posted on your website. We specifically do not request confidentiality and wish as many people as possible to read our comments.

Yours faithfully

Charles Henderson, Director, UK Shareholders’ Association
Direct phone: 07709 465772; Email: charles.henderson@uksa.org.uk

Cliff Weight, Director, ShareSoc
Direct phone: 07712 793114; Email: cliff.weight@sharesoc.org