

July 12, 2024

Submitted electronically

International Accounting Standards Board (IASB)
Andreas Barckow, Chair

**Re: Response to Exposure Draft on Business Combinations – Disclosures, Goodwill and Impairment
(Proposed amendments to IFRS 3 Business Combinations and IAS 36 Impairment of Assets)**

Dear Mr. Barckow,

The Canadian Public Accountability Board (CPAB) is pleased to comment on the IASB’s Exposure Draft on Business Combinations – Disclosures, Goodwill and Impairment.

CPAB is Canada’s independent public company audit regulator charged with overseeing public company audits performed by registered public accounting firms. CPAB is committed to protecting the investing public by contributing to public confidence in the integrity of financial reporting.

CPAB supports the broader objective of the IASB’s Exposure Draft to provide users more useful information about business combinations. In performing our mandate, CPAB frequently reviews the audit work performed on business combinations and goodwill impairment. [CPAB’s 2023 Regulatory Oversight Report](#) highlights that business combinations and long-lived assets (which includes goodwill impairment) are among the more inspected audit areas.¹ We would like to further highlight that business combinations have resulted in the highest number of restatements from our inspections in the past two years. Our comments are limited to our observations from our inspection of audit firms and how we view potential audit implications of the proposed changes.

Overall comments

CPAB supports the proposed new disclosure requirements in IFRS 3. We agree that this quantitative and qualitative information will provide increased transparency to users of the financial statements and will help better assist them in assessing the performance of a business combination.

CPAB also supports the targeted amendments to the requirements in IAS 36 relating to the calculation of value in use, allocation of goodwill to cash-generating units (CGUs) and disclosure requirements. Based on our inspections results, we agree with the IASB’s concerns that impairment losses on goodwill are sometimes recognized too late. Our inspections have found a significant amount of judgment around the determination of CGUs and that goodwill impairments are often not recognized until a significant decline in profitability

¹ In 2023, CPAB inspected 41 business combinations and 52 long-lived assets (which includes goodwill). CPAB Regulatory Oversight Report: 2023 Annual Inspections Results, p.14.

occurs. As such, we agree that the targeted amendments clarifying how goodwill is allocated to CGUs will help alleviate some concerns that impairment is shielded by the good performance of another component. We have also observed the use of optimistic assumptions when estimating the recoverable amount of CGUs. The additional disclosures around which CGUs contain goodwill and the assumptions used by management to assess impairment will provide users with increased transparency.

Proposed new disclosure requirements in IFRS 3

We support additional disclosures about the performance of business combinations, including the acquisition-date key objectives and related targets for strategic business combinations. We commonly observe an insufficient understanding of the rationale for the business combination. CPAB's [audit evidence](#) and [auditing accounting estimates](#) publications highlight examples of significant findings² relating to business combinations. For example, we identified a scenario where a reporting issuer acquired an entity with no/minimal assets or liabilities and then recognized a large impairment, writing off the entire investment at the end of the year. We also observed several instances where a reporting issuer recognizes a significant amount of goodwill on acquisition, and then soon thereafter records a large impairment of goodwill. In all scenarios, the rationale for the business combination was not understood by the audit firm. In our view, there is a strong correlation between an auditor's understanding, and whether the auditor has performed sufficient audit work to support management's accounting for the business combination. As a result, we agree that the proposed disclosures would enhance a financial statement user's ability to assess the performance of a business combination.

Finally, it is our view that the expected revenues and costs are frequently incorporated into some forecasted cash flows that are prepared as part of the purchase price allocation when determining the fair value of assets and liabilities arising from the business combination. As such, this would largely be derived from information the reporting issuers already have, which would be subject to audit procedures under existing standards. We therefore agree with the proposed requirement to describe the synergies by category, to disclose estimated amounts or ranges of amounts of expected revenues and the estimated costs or range of costs to achieve these synergies.

With respect to the proposed amendments to IFRS 3.B67A(b), the subsequent period disclosure should be based on projections that cover a maximum period of five years, unless a longer period can be justified, and extrapolating the projections for periods covered beyond this time. This would conceptually align with the current guidance in IAS 36 paragraphs 33(b) and (c).

² A significant inspection finding is defined by CPAB as a deficiency in the application of the generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach.

Targeted amendments to the requirements in IAS 36 relating to the calculation of value in use, the allocation of goodwill to cash-generating units (CGUs) and the disclosure requirements

CPAB supports the amendments to IAS 36, which include clarifications on how an entity should allocate goodwill to CGUs. Our inspections have found that this allocation of goodwill is subject to significant judgment and that following the initial allocation, reporting issuers group goodwill into a larger CGU for impairment testing. In some instances, we observed that there is insufficient support that this grouping represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. We observed that this grouping can potentially shield the reporting issuer from recognizing a goodwill impairment. Consequently, we agree with the IASB that these clarifications are expected to help reduce shielding.

Closing remarks

We would be happy to discuss our views further or answer any questions you may have about this letter. If you wish to discuss, please contact me (carol.paradine@cpab-ccrc.ca), Stacy Hammett, CPAB Audit Standards Leader (stacy.hammett@cpab-ccrc.ca) or Angelo Bottoni, Senior Director, Inspections (angelo.bottoni@cpab-ccrc.ca).

Yours truly,



Carol A. Paradine, FCPA, FCA
Chief Executive Officer

cc: Bob Bosshard, Chair, Auditing and Assurance Standards Board (AASB)
Armand Capisciolto, Chair, Accounting Standards Board (AcSB)
Brian Banderk, Chair, Canadian Securities Administrators Chief Accountants Committee