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Hans Hoogervorst
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21 December 2020

Dear Mr Hoogervorst

Re: Discussion Paper DP/2020/1: Business Combinations – Disclosures, Goodwill and Impairment
We welcome the opportunity to comment on the Business Combinations – Disclosures, Goodwill and Impairment Discussion Paper (DP).

Aviva is the leading insurer in the UK serving one in every four households and has strong businesses in selected markets in Europe, Asia and Canada. We provide life insurance, general insurance, health insurance and asset management to 33 million customers worldwide and in 2019 paid £33.2 billion in claims and benefits. Our shares are listed on the London Stock Exchange and we are a member of the FTSE100 index.

We summarise the key points identified below, and provide more detail, including responses to each of the specific questions posed by the DP in the appendix to this letter.

Areas where we support the preliminary views reached in the DP
We support the following preliminary views reached in the DP:

- **To retain the impairment-only testing approach for the subsequent accounting for goodwill (Question 9)**
  In our view the impairment only testing approach supports the provision of better information for users. The key factor being that the useful economic life of goodwill is very difficult to estimate and potentially arbitrary. Hence the amortisation approach could work contrary to the objectives of DP as goodwill recoverability would be tested against a lower value each year which we do not believe would provide better information for investors to be able to hold management to account for their investment decisions.

- **To allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use (Question 10)**
  We are supportive of the proposals to simplify the impairment test in this manner, as pre-tax inputs are difficult to accurately establish for an international company and introduce undue cost and complexity into the reporting process.

- **Not to develop proposals to allow some intangible assets to be included in goodwill on acquisition (Question 12)**

We believe there is value to the continued recognition of intangible assets separately to goodwill, as this provides a more accurate representation of the value attributed to the acquired business by management. In addition, recognising separate intangible assets means subsequent impairment testing will be at a more granular level for both the impairment test itself and the assessment of impairment indicators. This is likely to lead to more accurate impairment reviews each year and can help to reduce the risk of shielding.

Areas where we support the preliminary views but believe further consideration is necessary
In the following areas we support the preliminary views in the DP but believe further consideration is necessary:

- **Introducing disclosure on management objectives from an acquisition (Question 1 to 3)**
  We acknowledge the concerns that insufficient information is currently provided to enable investors to hold management to account on the subsequent performance of an acquisition, and we do not object to a proposal to provide further information. However, we have a number of concerns with providing this information in the financial statements as set out in our responses to questions 1 to 3. In our view, any additional disclosure should be a matter for the Strategic Report, where management provide commentary on the business. We do not believe that quantitative/forward looking measures should be introduced into the financial statements' disclosure.

Areas where we do not support the preliminary views
In the following areas we do not support the preliminary views in the DP:

- **To require disclosures relating to expected synergies (Question 4)**
  In addition to concerns relating to the commercial sensitivity of this information, the benefits of an acquisition often include cost synergies to be achieved in part through headcount reductions; and financial statements disclosure of this kind could lead to speculation in advance of any formal announcements.

- **To remove the requirement to perform a quantitative impairment test every year (Question 6, 7, 9 and 11)**
  We are strongly of the view that the annual impairment test should be retained, and we are also of the view that the costs of performing a robust annual impairment test are proportionate to the benefits. The annual testing approach more fully supports the objective (enabling investors to hold management to account for their investment decisions) than the alternatives presented in the Discussion Paper.

- **To add a requirement to disclose the cash flows from operating activities of the acquired business on a pro forma basis (Question 5)**
  Whilst we support retaining the existing pro forma information requirements, we do not support proposals to expand this information, in particular the proposal to disclose cash flow information. We do not believe that this information is useful to users of an insurance company and will introduce new complexity and cost without adding significant value. Disclosure of cash flow information more generally for insurance companies is a matter that requires further consideration.

- **To require companies to present on their balance sheets the amount of total equity excluding goodwill (Question 8)**
  We do not support this proposal, as this can easily be derived from the existing balance sheet presentation and adds little value.

- **To remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring (Question 12)**

We believe that this would introduce an opportunity for management bias that could give rise to optimistic cash flows, which is identified in the Discussion Paper as one of the primary reasons for impairment losses being recognised too late. We note that this would introduce an inconsistency with the recognition criteria for liabilities for restructuring under IAS 37.

In the appendix to this letter we set out our responses to the specific questions in the Discussion Paper and provide more detail on our concerns and recommended solutions to address the issues identified.

We are at your service to answer any further questions you may have and work collaboratively with your staff to develop solutions to the issues that we have identified.

Yours sincerely,

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Aviva Response to DP/2020/1: Business Combinations – Disclosures, Goodwill and Impairment

Responses to specific questions

Section 1 - Introduction

Question 1

Paragraph 1.7 of the DP summarises the objective of the IASB research project. Paragraph IN9 of the DP summarises the IASB preliminary views. Paragraphs IN50– IN53 of the ED explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views.

The IASB 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 IASB is of the view that the benefits of providing that information would exceed the costs of providing it.

a) Do you agree with the IASB'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 IASB reintroduces amortisation of goodwill? Which of your answers depend on other answers and why?

Aviva Response

We acknowledge the objective to provide investors with more information to assess performance and more effectively hold management to account for its decisions to acquire a business. However, we largely do not agree with the proposed changes set out in the Discussion Paper. In particular:

- We believe that additional disclosure relating to management's objectives for an acquisition are better suited to the narrative information provided in the Strategic Report, and new quantitative disclosure in the financial statements would be inappropriate as it would introduce forward-looking information and/or performance measures that are not necessarily IFRS based.

- We believe that a robust approach to impairment testing in accordance with IAS 36 will result in impairment losses being identified on a timely basis, and the problems presented by optimistic cash flows or shielding can be addressed by ensuring goodwill is tested at the appropriate level of granularity, retaining requirements to present intangibles separately, and ensuring this is supported by appropriate levels of disclosure.

We are strongly of the view that the annual impairment test should be retained. Performing a robust annual impairment test is a valuable exercise to monitor the ongoing recoverability of the goodwill balance and more fully supports the objective of holding management to account for their investment decisions than the alternatives presented in the Discussion Paper.

Section 2 – Improving disclosures about acquisitions

Question 2

Paragraphs 2.4–2.44 of the DP discuss the IASB'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 of the DP—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?*

   (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 of the DP). 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 of the DP), rather than on metrics prescribed by the IASB.*

   (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 IASB should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20 of the DP).*

   (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 of the DP).*

   (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 of the DP).*

   (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 of the DP).*

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 of the DP)? 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 of the DP) 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 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 IASB'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 IASB 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?*

Aviva Response

We acknowledge the concern raised by investors that companies do not typically provide enough information on the subsequent performance of acquisitions to enable them to hold management to account on the success of past acquisitions. However, we have a number of reservations as to whether the proposed disclosures will achieve the desired objective. Further consideration is required to establish how disclosures could be enhanced to provide meaningful information to investors without introducing undue complexity or cost.

In our view, any additional disclosure should be proportionate to the size of the acquisition relative to the company, as without proportionality there is a risk that disclosures become too granular and could obscure the important disclosures relevant for the user to understand a company's acquisition activity. Considering whether acquisitions are being monitored by the CODM may be a reasonable basis for assessing whether disclosure of information relating to an acquisition should be made.

Information relating to a new acquisition is sometimes subject to ongoing commercial sensitivity, as acknowledged in the DP. In such cases, it is appropriate for management to limit information disclosed externally. Such limitation may cause disclosures to become too generic and as a result, unhelpful, not meeting their intended purpose even for material acquisitions.

There is also likely to be limited comparability between entities, as the relevant information for users is likely to be different for companies in different industries, and for each specific acquisition. This is inherent in the nature of acquisition activity and we would not support proposals to introduce more rigid reporting requirements with the intention of comparability, as we believe this would result in less relevant information in this case.

Forward looking information relating to a new acquisition is likely to be subjective and therefore may be difficult to audit; and doesn't align to narrative disclosure typically found in the financial statements. We believe that this information sits better in the Strategic Report where management provide commentary on the business.

Question 3

Paragraphs 2.53–2.60 of the DP explain the IASB'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:

a) the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business; and

b) the extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition.

Do you agree with the IASB's preliminary view? Why or why not?

Aviva Response

We do not object to the proposal to develop new disclosure objectives to describe the benefits that a company's management expect from an acquisition to enable investors to understand the rationale for the acquisition price. However, we do not support the proposal for this to be through quantitative disclosure in the financial statements, as we believe this will need to consider forward-looking information that would be inappropriate in the financial statements. As such, we believe that the objective should be addressed through additional narrative disclosure in the Strategic Report, noting the concerns raised in response to question 2.

We also note that, for insurance companies, the objectives for an acquisition are not necessarily defined by IFRS measures, due to the importance of Solvency II for the effective stewardship of an insurance company. Proposals to bring these measures into the scope of the financial statements would have very significant implications in terms of approach to audit /assurance and compliance cost. In addition, due to the long-term nature of life insurance business, the disclosure of and assessment against qualitative objectives in the early years post-acquisition are likely to have limited meaning, particularly through IFRS measures, and it would be difficult to appropriately describe the success or otherwise of an acquisition of a life insurance business without introducing forward-looking information.

Question 4

Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 of the DP explain the IASB's preliminary view that it should develop proposals:

(a) to require a company to disclose:

(i) a description of the synergies expected from combining the operations of the acquired business with the company's business;

(ii) when the synergies are expected to be realised;

(iii) the estimated amount or range of amounts of the synergies; and

(iv) the expected cost or range of costs to achieve those synergies; and

(b) to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.

Aviva Response

We do not support the proposed disclosures in the IASB preliminary view (paragraphs 2.62–2.68 of the DP), as information regarding the synergies expected from combining operations is highly likely to be commercially sensitive by providing such information to competitors and could adversely impact future negotiations for acquisitions. Providing a description of the synergies expected may also be problematic, as the benefits of an acquisition often include cost synergies to be achieved in part through headcount reductions. It would be inappropriate to indicate planned cost synergies of this type in any financial statements disclosure as it could lead to speculation in advance of any more formal announcements of intentions.

We do not object to the proposal to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities (to be separately disclosed on the acquisition balance sheet), where these are material, though we consider that if these are material the disclosure requirement already exists within the current requirements of IFRS 3.

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 of the DP explain the IASB's preliminary view that it should retain the requirement for companies to prepare this pro forma information.

(a) Do you agree with the IASB's preliminary view? Why or why not?

(b) Should the IASB develop guidance for companies on how to prepare the pro forma information? Why or why not? If not, should the IASB 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 of the DP explain the IASB'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 IASB's preliminary view? Why or why not?

Aviva Response

With regards to the provision of proforma information as currently set out in IFRS 3 (revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date had been at the beginning of the reporting period), we note that this disclosure is indicative (limited by factors such as accounting reference date and accounting policy alignment) and it may be difficult to estimate what profitability would have been under different management in the period. As such, we question the value that the pro forma information adds other than as a high-level estimate, and so we do not believe that there should be any further degree of precision attributed to this disclosure. We agree with the Board's preliminary view that providing additional information would not necessarily help investors to assess the full year contribution to the acquired business.

We continue to support the disclosure of acquisition balance sheet information, as we believe that this disclosure provides users with the necessary information to understand the assets and liabilities acquired in the business combination. However, the interaction of acquisition accounting with IFRS 17 needs further consideration as the measurement of insurance liabilities can change as a consequence of the acquisition making the disclosure of this information difficult to explain to users.

We are supportive of the recommendation to align the pro forma information to the new IAS 1 proposals to replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs. However, we note that for insurance companies there is a need to address the potential inconsistency at the operating profit level arising from the FVPL/FVOCI accounting policy choice in IFRS 17 as noted in our response to the General Presentation and Disclosure Exposure Draft.

We do not support the proposal to disclose cash flows from operating activities in the pro forma information. In addition to the reasons relating to general pro forma information set out above, we do not believe the disclosure is useful for the users of the financial statements of an insurance company, and disclosure will introduce new complexity and cost without adding significant value. Presentation of cashflow for insurers is an area requiring further consideration more generally.

Section 3 – Goodwill impairment and amortisation

Question 6

As discussed in paragraphs 3.2–3.52 of the DP, the IASB 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 IASB'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 IASB 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 of the DP 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?

Should the IASB 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?

Aviva Response

We acknowledge that the impairment only testing model is not a perfect solution and that there can be a timing lag between the events triggering an impairment taking place and the impairment loss being recognised and disclosed. However, it is our view that a robust approach to impairment testing in accordance with IAS 36 will result in the impairment loss being identified on a timely basis, usually within the same reporting period, and the problems presented by optimistic cash flows are ones of application rather than problems requiring amendments to the standards.

In many cases a successful acquisition will result in complete integration into the existing business within a relatively short time scale, resulting in the cash flows relating to the acquired entity becoming indistinguishable from the acquiring entity (or an operating segment of the acquiring entity), and so at least an element of shielding is often inevitable and reflects normal business practice.

Question 7

Paragraphs 3.86–3.94 of the DP summarise the reasons for the IASB'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 IASB should not reintroduce amortisation of goodwill? Why or why not? (If the IASB were to reintroduce amortisation, companies would still need to test whether goodwill is impaired.)*
- *(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?*

Aviva Response

On balance, we agree that the amortisation of goodwill should not be reintroduced. We acknowledge that the goodwill balance recognised on acquisition becomes less meaningful in subsequent reporting periods, as the conceptual value from a past acquisition is likely to have been realised over time for example via synergies/growth benefits. However, to reintroduce amortisation would require a useful economic life to be determined, which could be quite arbitrary and could work contrary to the objectives set out in the DP, particularly for investors to be able to hold management to account for their investment decisions, because:

- The results of the impairment test could be obscured, as goodwill recoverability would be tested against a lower carrying value every year; and
- The amortisation charge would be recognised in the income statement each year and would be likely to become another 'add-back' for investors when evaluating the year on year performance of the business.

Question 8

Paragraphs 3.107–3.114 of the DP explain the IASB'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 IASB 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 IASB develop such a proposal? Why or why not?

(b) Do you have any comments on how a company should present such an amount?

Aviva Response

We do not support the proposal to present equity net of goodwill, as this can be easily derived from the existing balance sheet presentation and adds little value.

Section 4 – Simplifying the impairment test

Question 9

Paragraphs 4.32–4.34 of the DP summarise the IASB'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 IASB develop such proposals? Why or why not?*

(b) *Would such proposals reduce costs significantly (see paragraphs 4.14–4.21 of the DP)? 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 of the DP)? Why or why not?*

Aviva Response

We are strongly of the view that the annual impairment test should be retained, and we are also of the view that the costs of performing a robust annual impairment test are proportionate to the benefits.

The test provides an objective measure of the performance of an acquisition and is a valuable exercise to conduct each year to monitor the ongoing recoverability of the goodwill balance and more fully supports the objective of holding management to account for their investment decisions than the alternatives (amortisation or impairment testing only in the event of impairment indicators). We also believe that a change to requiring a quantitative impairment test only when there is an identified indicator of impairment increases the risk of impairment not being recognised on a timely basis with a risk that preparers would move closer to a light touch review.

We note that if these proposals are pursued, the guidance on impairment indicators should be extended to mitigate the risk of impairment tests not taking place when there are indicators of impairment.

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.

Aviva Response

We are supportive of the proposal to simplify the impairment test calculation by using post-tax cash flows and discount rates, as pre-tax inputs are difficult to accurately establish for an international company and introduce undue cost and complexity into the impairment testing process.

We do not agree that the restriction in IAS 36 prohibiting companies from including cash flows arising from uncommitted restructuring should be removed. We believe that this would introduce an opportunity for management bias that could give rise to more optimistic cash flows, which the DP identifies as one of the primary reasons for impairment losses being recognised too late. We also note that this would introduce an inconsistency with the recognition criteria for liabilities for restructuring under IAS 37.

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?

Aviva Response

We agree with the Board's preliminary view that it should not develop proposals for any of the simplifications for the reasons set out in paragraph 4.56. We agree that the available guidance in IAS 36 and IFRS 13 is sufficient, and note that it is important to allow preparers to make appropriate judgements in determining the recoverable amount and this may be compromised by introducing more prescriptive requirements that could result in less relevant value in use calculations.

Section 5 – Intangible assets

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?

(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?

Aviva Response

We believe there is value to the continued separate recognition of intangible assets to goodwill and so we agree that the Board should not develop a proposal to allow some intangible assets to be included in goodwill. The separate recognition of these assets provides more relevant information by providing a more accurate representation of the value attributed to the acquired business by management, as opposed to making an initial assumption that the value paid over and above the net asset value is purely goodwill. Such intangible assets may have a separately determined useful economic life and would therefore be amortised, avoiding recognising a larger goodwill balance that may be subject to the limitations other parts of the DP seeks to address, such as shielding and ineffective impairment testing. Separate recognition of these assets also requires separate impairment testing or impairment indicators assessment, which is likely to lead to more accurate impairment reviews each year and reduces the risk of shielding.

However, we note that there may be some recognition of intangible assets that are difficult to separate from goodwill, such as brands and undefined customer lists. We would support a proposal not to separately identify these assets on initial recognition. This could be done by introducing a clarification that separate recognition of intangible assets should be done only where there is clear distinction between the goodwill and the separate intangible asset, for example, being supported by discrete cash flows.

Section 6 – Other recent publications

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?

Aviva Response

Our answers do not depend on consistency with US GAAP. We support convergence where appropriate, but only to the extent that any related amendments bring improvements to IFRS.

Question 13

Do you have any other comments on the IASB's preliminary views presented in the DP? Should the IASB consider any other topics in response to the PIR of IFRS 3?

Aviva Response

We note that the DP does not make any reference to transitional relief for the proposed disclosure changes. If it is concluded that any disclosure changes are required, we believe these should be prospective to avoid retrospective disclosure with the benefit of hindsight.

We do not have any further comments at this stage.