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Reference: Request for Information – Discussion Paper – Business Combination – Disclosures, Goodwill and Impairment

The Comitê de Pronunciamentos Contábeis- CPC (Brazilian Accounting Pronouncements Committee)[1]welcomes the opportunity to respond to the Discussion Paper entitled as: Business Combinations – Disclosures, Goodwill and Impairment.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We agree with the proposed changes and inform that we do not expect any impacts in the Brazilian jurisdiction.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Mota

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

1. The Surrounding of Brazilian Companies about this Topic

Firstly, it is essential to highlight that the *Comitê de Pronunciamentos Contábeis* (CPC) believes that this project is significant since there is no consensus if the most robust subsequent treatment to assess goodwill is the impairment test or amortization.

If, on one hand, the impairment test represents an opportunity to evaluate potential overstates goodwill annually, on the other hand, the impairment test is a complex discounted cash-flow, obtained from a high discretionary process, exposed to significant changes in its conclusions depending on the assumptions taken by the preparers of the financial statements.

Amortization, for your turn, is a continuous process of goodwill's write-off in a certain period. However, there is no clarity about the timeliness that must be used to write-off goodwill. Most likely, each acquirer that applied IFRS 3 to allocate the purchase price allocation and, consequently, measured the goodwill, may have your own amortization timeline.

In summary: the impairment test is a complex evaluation of goodwill subjected to a discretionary set of assumptions, and amortization is a more simplistic approach, however without a defined timeliness or even a consistent methodological approach to achieve it.

In this context, CPC understanding that there is a lack in the accounting knowledge regarding robustness format to derecognize goodwill from the acquirer balance-sheet over the years, assuming that all assets have to be consumed after a while. Furthermore, the impairment test creates an opportunity to keep goodwill accounted as an asset forever, which does not make sense from the economic viewpoint.

For Brazilian firms, the dilemma between the goodwill impairment test versus the amortization write-off is more relevant because Brazil has adopted the IFRS rules for both sets of financial statements, local and consolidated[2], and

[2] For more details, please see:

https://www.ifrs.org/news-and-events/2017/05/3-pocket-guide-to-ifrs-standards-the-global-financial-reporting-language/

according to the Brazilian Tax Authorities, the goodwill can be deducted from income taxes considering a period from five years to ten years, since fulfilled some conditions[3].

Taking into consideration the Brazilian tax-rules and the financial accounting standards, which are IFRS, it is possible to say that Brazilian firms have to follow two subsequent procedures about goodwill: (i) do an impairment test on an annual basis for IFRS purposes; and (ii)amortized this asset in continuous basis for tax purposes.

CPC believes that this brief context allows the IASB technical staff to understand why this discussion is relevant for our jurisdiction since representing an over cost to follow both procedures.

CPC also knows that tax issues are not in the scope of IASB's activities. However, the main arguments presented by the Board in its preliminary view to justify the non-reintroduction of goodwill amortization it is only based on the following assumptions:

(i) Amortization might not provide useful information for financial statements users; and
(ii) The amortization timeline is discretionary.

Regarding the assumption of useful information, the Board mentioned that goodwill impairment could bring some relevant statements about the companies' performance. Nevertheless, it also matters to clarify that this a Board's perception and not an empirical find, which means that it is an anecdotal conclusion and not a methodological observation from a sample of data or a survey with investors, lenders, or another kind of financial statements users.

Related to the amortization's subjective timeline, it also matters to highlight that, while amortization requires the assumption of a timeline using one particular

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Brazilian Laws: http://www.planalto.gov.br/ccivil_03/_ato2007-2010/2007/lei/l11638.htm
http://www.planalto.gov.br/ccivil_03/leis/l6404consol.htm

[3] For more details please see:

http://www.planalto.gov.br/ccivil_03/_ato2011-2014/2014/lei/l12973.htm

http://normas.receita.fazenda.gov.br/sijut2consulta/link.action?idAto=81268 criterion, the discounted cash-flow, employed in the impairment test, needs a set of assumptions to be performed, creating a window to the earnings management practices in some situations[4]. Thus, the discretionary it is not a big issue to avoid amortization approach since it needs only one criterion, which is timelines, while the impairment test needs at least three subjective assumptions: (i) the growth rate; (ii) the discount rate; and (iii) the forecast's timeliness.

Another critical discussion related to the impairment test to evaluate if goodwill should be derecognized or not is the theoretical support to do this process. Considering the goodwill definition provided by the IASB in IFRS 3, it is possible to comprehend that goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. In this way, if goodwill is not individually explained during the purchase price allocation, how can it be adequately segregated

[4] For more details, please see some examples:

Big bath and goodwill impairment https://www.scielo.br/scielo.php?pid=S1806-48922019000200312&script=sci_arttext&tlng=en

Goodwill Impairment, Earnings Management, and Law System: https://uis.brage.unit.no/uis-xmlui/bitstream/handle/11250/2622042/Nguyen_Thuy_Verdes_Daniela.pdf?isAllowed=y&sequence=3

Goodwill impairment as a tool for earnings management. https://repub.eur.nl/pub/20022/114-137_lemans.pdf

Earnings management behavior with respect to goodwill impairment losses under IAS 36: The French Case. https://econpapers.repec.org/article/hurijaraf/v_3a7_3ay_3a2017_3ai_3a2_3ap_3a177-196.htm

Earnings management and goodwill impairment: An empirical analysis in the Italian M & A context. https://www.emerald.com/insight/content/doi/10.1108/JIC-09-2015-0081/full/html

The impairment test of goodwill: an empirical analysis of incentives for earnings management in Italian publicly traded companies. https://www.tandfonline.com/doi/full/10.1080/1331677X.2016.1164923

Goodwill Impairment - Earnings Management during the New FRS 3 Transitions: Evidence from the Main Board of Bursa Malaysiahttp://www.wseas.us/e-library/conferences/2010/Cambridge/ICBA/ICBA-06.pdf

Fair Value, earnings management and asset impairment: The impact of achange in the regulatory environment. https://core.ac.uk/download/pdf/82594665.pdf

Goodwill impairment losses, economic impairment, earnings management and corporate governance. https://openarchive.usn.no/usn-xmlui/handle/11250/2591552 for impairment test purposes, not considering the impact of other assets and liabilities?

From this brief context about the Brazilian firms as well as the main concerns of CPC about the Board's inclination to keep the goodwill's impairment test without a robust set of empirical evidence showing that the financial statement users agree that impairment test brings relevant information, CPC endorses the relevance of this debate.

The following sections of this comment-letter are : section 2 – a brief indication of a set of technical papers about the pros and cons related to the impairment test and amortization in a goodwill context; section – 3 our answers to questions raised in the discussion paper.

2. Pros and Cons – Impairment *versus* Amortization

The setlist below contains all the materials consulted by CPC's technical body to elaborate this comment-letter and could be useful for IASB's technician in their literature review activities.

(i) Invitation to Comment (ITC) – Prepared by CFA
https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20200113.ashx

(ii) ASBJ Publishes Research Paper No. 2, Quantitative Study on Goodwill and Impairment
https://www.asb.or.jp/en/discussions/papers/2016-1003.html

(iii) FASB Simplifies the Test for Goodwill Impairment
https://www.tscpa.org/docs/default-source/communications/2019-today's-cpa/january-february/cpearticle-quiz-fasbsimplifiestestgoodwill-jan-feb2019-today'scpa.pdf?sfvrsn=cd65f2b1_4

(iv) Amortization Versus Impairment of Goodwill and Accounting Quality
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1978895

(v) Goodwill Impairment versus Amortization: Research of Practice and the Theoretical Basis
https://ibima.org/accepted-paper/goodwill-impairment-versus-amortization-research-of-practice-and-the-theoretical-basis/

(vi) Should be goodwill still not be amortised?
http://old.efrag.org/files/Goodwill%20Impairment%20and%20Amortization/140725_Should_goodwill_still_not_be_amortised_Research_Group_paper.pdf

(vii) FASB absorbs feedback on goodwill impairment vs. amortization
https://www.bvresources.com/articles/bvwire/fasb-absorbs-feedback-on-goodwill-impairment-vs-amortization

3. Responses for Discussion Paper's Questions

Question 1
Paragraph 1.7 summarises the objective of the Board's research project. Paragraph IN9summarises the Board's preliminary views. Paragraphs IN50–IN53 explain that thesepreliminary views are a package and those paragraphs identify some of the links between the individual preliminary views. The Board 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 isto help investors to assess performance and more effectively hold management to account for its decisions to acquire those businesses. The Board is of the view that the benefits of providing that information would exceed the costs of providing it.
(a) Do you agree with the Board's conclusion? Why or why not? If not, whatpackage of decisions would you propose and how would that package meet theproject's objective?

CPC's answer*: Firstly, it is essential to return to the core question, which is: Does the impairment test enhances the accounting information than the amortization?*

CPC believes that the IASB is taking an accelerated step assuming that impairment test is better than amortization without presenting a clear justification to assume such position.

Table 1.1. presented in the Discussion Paper shows that there is no consensus about impairment test, as demonstrated in the excerpted below.

Impairment of goodwill and intangible assets with indefinite useful lives	Stakeholders had different views on the impairment-only approach to goodwill. Some investors said this approach provided useful information, because it helped them assess management's stewardship. They also said the information provided by the impairment test had confirmatory value. Many stakeholders described the impairment test as complex, time-consuming and expensive and said it requires companies to make difficult judgements. Many stakeholders said there is a time lag between an impairment occurring and recognition of an impairment loss in a company's financial statements. Many stakeholders suggested reintroducing amortisation.

According to CPC's view, it is important first to understand if the impairment test has been achieved a placement that provided useful information about goodwill performance and if this assumption can be maintained, thus beginning the debates about how this information can be increased in several perspectives, e.g., disclosure, discounted cash-flow assumptions, among others.

Furthermore, CPC's believes that a better understanding of the information provided by the Post-Implementation-Review about IFRS 3 is needed to understand how accounting information users use or notgoodwill impairment test, accepted it or not, and if it is not better to reintroduce an amortization approach.

According to CPC's views, this debate about amortization and impairment is essential to avoid the cost that companies have to bear with new disclosures requirements about *impairment test, however without a clear understanding of whether impairment test brings useful and comprehensive information regarding goodwill.*

Please, consider the academic literature prior mentioned showing several results indicating that the goodwill impairment teste increases the level of earnings management in general by using such assumptions that are noteasily tested or validated by external users of accounting information.

For this reason, CPC's understand that there is no condition to agree or disagree with the Board's view since the main questions are not debated in this discussion paper.

Furthermore, it will be essential provide some guides for preparers to achieve such performance measures because this a very subjective and discretionary topic.

(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 forgoodwill depend on whether the Board reintroduces amortization of goodwill?Which of your answers depend on other answers and why?

CPC's answer*:CPC's answered positively to this question. There is a considerable debate to be conducted with available information and data to evaluate why the Board's consider impairment test is better than the amortization test.*

The technical literature indicates that the impairment test for goodwill is discretionary and could increase earnings management practices. The IASB by himself has shown that some external users of accounting information consider the amortization approach better than the impairment is more straightforward to be understood. A Post-Implementation-Review to reevaluate if the impairment test has or has not achieved the placement of useful information was not conducted.

In this way, CPC's believes that suggest changes or increases in the disclosure's requirement about the impairment test of goodwill without a robust perception of whether it is the best tool to reevaluate goodwill could create additional costs for firms.

Question 2

Paragraphs 2.4–2.44 discuss the Board'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—investors' need for better information on the subsequent performance of an acquisition? Why or why not?

CPC's answer*: No, it is not possible to assure that these new requirements will address these issues, mainly because there is no availableinformation to understand what kind of investors have been taking into consideration to suggest some changes: Do they are active or non-active investors? Do they consider other information sources such as MD&A to understand a business acquisition's future performance better?*

The Discussion Paper brings more doubts than certainties, mainly when there is a serious debate about the financial statements' level of information. Thus, any insertion or requirement for new information, even in technical notes, has to be justified in terms of informational benefits.

It would be interesting for the Board to mention what it considers a subsequent period, one year, two years, in summary, how much longer would be considered a subsequent period?

(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). 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), rather than on metricsprescribed by the Board.

(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 Board should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20).

(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).
(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).
(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).

***CPC's answer**:CPC agrees that the disclosure mentioned are relevant to be followed by investors; however, these information is already available in such a way through MD&A, annual reports in sections distinct from accounting information as well as in the firms' documents which support the merger and acquisition transactions.*

Furthermore, the requirements regarding companies' strategy and monitoring a business acquisition performance could be a piece of non-auditable information in some cases when the managers do not prepare or have internal measures to evaluate whether an M&A is achieving or not some business purposes. Thus, this requirement could create additional costs to develop some information and not necessarily indicates that managers used it.

According to a brief literature review, even IFRS 8 Operating Segments, which can be compared to the information required by the IASB in this discussion paper and mentioned by the Board in this documents, has not shown effectiveness in its disclosure requests[5].

[5] For more information, plea see:

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3000034

https://www.tandfonline.com/doi/abs/10.1080/02102412.2014.987445?src=recsys&journalCode=refc20

In summary: there is no indication that these new requirements will produce helpful information, and IFRS 8 has not showing increase in technical notes about information segment.

(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)? 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?

CPC's answer*:CPC agrees that all the information provided to external users should be aligned with the management's view to reduce information asymmetry and aiming to increase the economic resources allocation. Nevertheless,CPC considers that the volume of disclosures would be onerous and might be redundant since this information could be disposed in other information sources, e.g., MD&A.*

(d) Could concerns about commercial sensitivity (see paragraphs 2.27–2.28) 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?

CPC's answer*:CPCbelieves that commercial sensitivity could inhibit companies from disclosing information about management's objectives and it is a valid reason for companies not to disclose some of that information, especially because investors can access this information from other ways different than financial statements, example: documents from shareholders' meeting, managers' reports, among other sources.*

Since the M&A information plays a very strategic role in firms' structure and looking forward initiative, there is a considerable risk that such requirement became a proforma information not linked with the real companies' purposes or evaluation process.

(e) Paragraphs 2.29–2.32 explain the Board'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 Board 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?

CPC's answer:*CPC believes that there are no constraints in our jurisdiction to disclosure forward looking information. However, it is important to observe the Brazilian Securities Exchange Commission – Comissão de ValoresMobiliários – regarding the topic as expressed in the IN CVM number 358*[6]*.*

However, some firms could not be motivated to disclose forecast information since it could be creating some misleading perceptions in investors such as "income promises".

Furthermore, auditors do not motivatethese kinds of disclosing.

Question 3

Paragraphs 2.53–2.60 explain the Board'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:

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

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

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

CPC's answer: *Aligned with prior answers, CPC believes that it is important to verify previously if these comments are not available in other sources as well as how these requirements can conflict with sensitive strategic information. Before this discussion, it is not possible to agree or disagree about such suggestions.*

[6] For more details, please see Page 76: http://www.cvm.gov.br/export/sites/cvm/legislacao/oficios-circulares/sep/anexos/oc-sep-0218.pdf

Question 4

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

• to require a company to disclose:

◦a description of the synergies expected from combining the operations oftheacquired business with the company's business;

◦when the synergies are expected to be realised;

◦the estimated amount or range of amounts of the synergies; and

◦the expected cost or range of costs to achieve those synergies; and

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

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

***CPC's answer**: Aligned with prior answers, CPC believes that it is important to verify previously if these comments are not available in other sources and how these requirements can conflict with sensitive strategic information. Before this discussion, it is not possible to agree or disagree about such suggestions.*

Moreover, in some circumstances, it is not clear how long synergies will be consumed, e.g., kind of intangible assets like brands and consumers' fidelity, and those requirements could create an informational checklist no supported by the managers' view.

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

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

CPC's answer:*CPC agrees that it should provide some information about the acquired performance beforea business combination. This information can be useful to investors and other financial accounting users to forecast figures after the transaction.*

(b) Should the Board develop guidance for companies on how to prepare the pro forma information? Why or why not? If not, should the Board require companies to disclose how they prepared the pro forma information? Why or why not?

CPC's answer:*CPC agrees that the guidance could be helpful to give a minimum content for this pro forma information; however,this guidance should not be considered as an exhaustive checklist under the risk to inhibit those companies that are interested in providing broader information.*

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 explain the Board'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 Board's preliminary view? Why or why not?

CPC's answer*: Yes, CPC agrees with both suggestions to increase the requirements that already exist; however, new requirements must be justified as significant increases in financial statements.*

Question 6

As discussed in paragraphs 3.2–3.52, the Board investigated whether it is feasible to make the impairment test for cash-generating units containing goodwill significantly more effective at recognizing impairment losses on goodwill on a timely basis than the impairment test set out in IAS 36 *Impairment of Assets*. The Board'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 ongoodwill at a reasonable cost? Why or why not?

CPC's answer*:CPC agrees. There is no consensus if the impairment is better than amortization, andno studies show the benefits of impairment losses at timely recognition. More researches and rounds with firms are needed beforesuggesting or discarding any alternative.*

(b) If you do not agree, how should the Board change the impairment test? How would those changes make the test significantly more effective? What cost would be required to implement those changes?

CPC's answer*:CPCis not sure that impairment test is the best alternative, thus, before any suggestion to increase the impairment of goodwill,CPC understands that is needed to return the discussion about amortization versus impairment. However, we consider that a simplified impairment test can be useful to reduce information cost. Furthermore, amortization can contribute to reduce costs compared to the impairment test.*

(c) Paragraph 3.20 discusses two reasons for the concerns that impairment losses on goodwill are not recognized 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?

***CPC's answer**:CPC considers that these concerns are essential, mainly because the goodwill test is performed using many assumptions that can be chosen due to the managers' optimism than firms' real performance.*

(d) Should the Board 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?

***CPC's answer**:CPC does not have further comments from the previous.*

Question 7

Paragraphs 3.86–3.94 summarise the reasons for the Board's preliminary view that it should not reintroduce amortization of goodwill and instead should retain the impairment-only model for the subsequent accounting for goodwill.

(a) Do you agree that the Board should not reintroduce amortization of goodwill? Why or why not? (If the Board were to reintroduce amortization, companies would still need to test whether goodwill is impaired.)

***CPC's answer**:CPC disagrees. As prior mentioned, the impairment test makes goodwill assessment more complex and subjected to earnings management through several assumptions challenging to be assured even by auditors, while amortization needs one parameter that is the timeline.*

Furthermore, it is possible to have both tools do write-off goodwill; using an amortization approach, companies can write-off goodwill regularly, and testing impairment annually to identify potential non-recovers of economic benefits.

Additionally, amortization could be more useful for private companies. Once these firms are not listed in capital markets, it is important to comprehend that the level of information is reduced and the use of endogenous assumptions to perform an impairment test increases in such situations, creating a potential background to not recognize impairment in a timing basis postponing losses recognizes.

(b) Has your view on amortization 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?

CPC's answer: *The Brazilian jurisdiction adopted IFRS in 2008, converging to a full-IFRS adoption in 2010. Thus,CPC does not participate in these prior arguments.*

However, we can list the following new arguments:

(i) *The empirical literature as mentioned above in Section 1 of this response, shows that the goodwill's impairment test does not work for practical purposes such as expected in theoretical thoughts – Impairment test can be used as an earnings management tool.*
(ii) *In some situations, the goodwill's impairment test cost is higher than its benefits.*
(iii) *Empirical evidence from Brazilian accounting users suggests that a hybrid methodology combining amortization and impairment test could be a useful approach to enhance the accounting information quality about the goodwill.*

(c) Would reintroducing amortization 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?

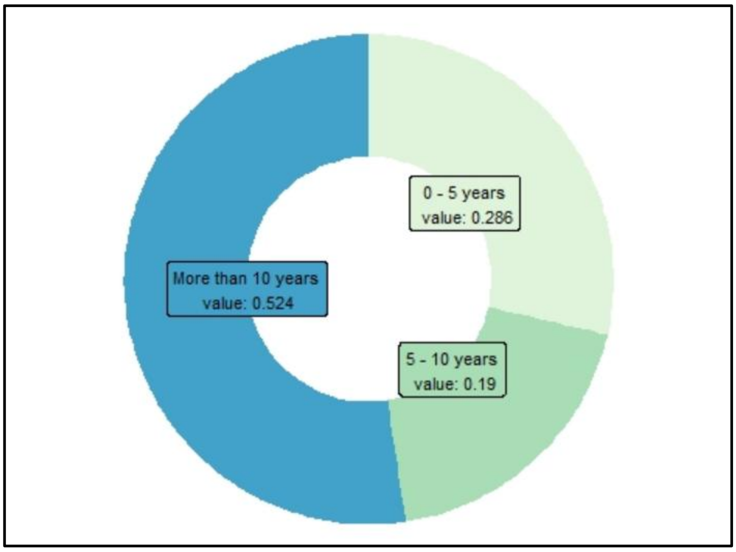
CPC's answer:*CPCagreesto reintroduce a hybrid model combining amortization and impairment test, especially because amortization is a kind of timely basis to derecognize goodwill, in this way whether companies must write-off goodwill periodically, it is expected a reduction in the incentives to not recognized impairment losses.*

Aiming to provide some empirical findings related to the arguments presented above, most specifically about the false dilemma between amortization and impairment test of Goodwill and the possibility to use a combination of both techniques, a survey was developed supported by the APIMEC – Associação dos Analistas e Profissionais do Mercado de

Capitais (Association of Analists and Professionais of Capital Market), the CPC obtained 581 answers the percentage findings are presented below.

1 - What is your experience with the use of accounting information for analysis purposes?

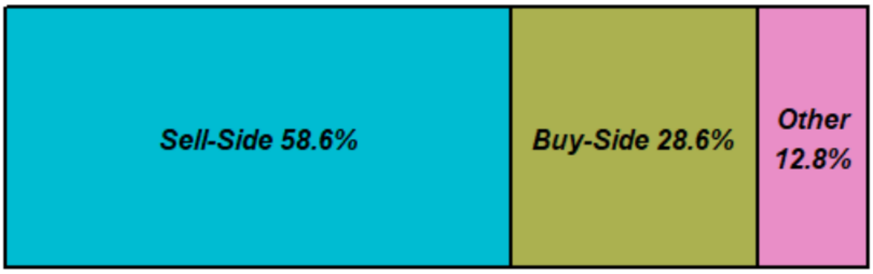
Chart 1. Doughnut of Professional Experience



A total of 304 professional declared themselves with more than 10 years (52%) of experience, 110 mentioned an experience between 5 and 10 years (19%), and 166 respondents filled a gap showing a professional experience between 0 to 5 years (29%).

2 - Do you act as a sell-side, buy-side analyst or do you have another role?

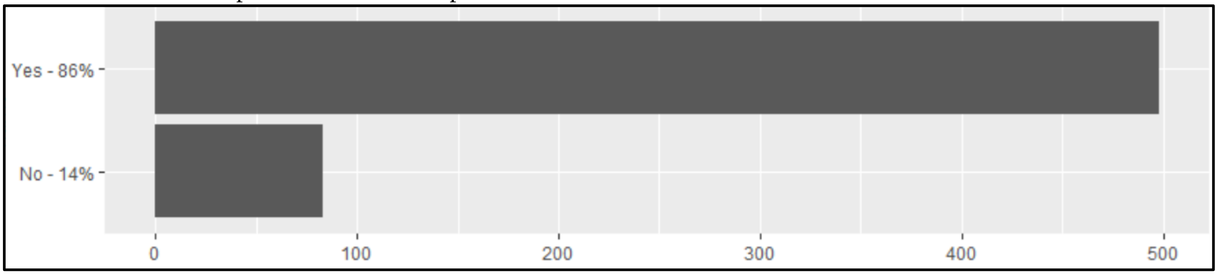
Chart 2. Treemap of respondents‘ roles



Almost 60% of respondents declared themselves as sell-side analysts (340), around 29% of respondents mentioned that they are buy-side analysts (166), and approximately 13% are managers, accountants, and play other professional roles (74).

3 - Do you consider that the accounting information, if provided based on the Goodwill impairment test, would be timely and useful for your analysis?

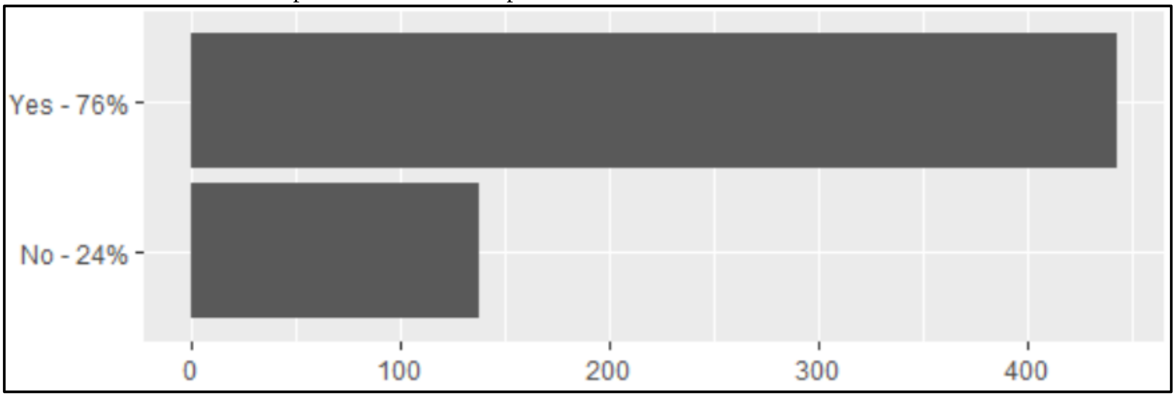
Chart 3. Barplot of Goodwill Impairment Test - Usefulness



In a total sample of 581 respondents, 498 indicated that the impairment test of goodwill is useful and timeliness (86%), and 14% of respondents suggested the opposite (83).

4 - Do you consider that the accounting information, if provided based on the systematic amortization of Goodwill, would be timely and useful for your analysis?

Chart 4. Barplot of Goodwill Impairment Test - Amortization



In a total sample of 581 respondents, 443 indicated that goodwill's amortization is useful and timely (76%), and 24% of respondents suggested the opposite (138).

5 - Which method do you consider most suitable for the subsequent evaluation of Goodwill?

Chart 5. Non-circular pie chart – Both methods

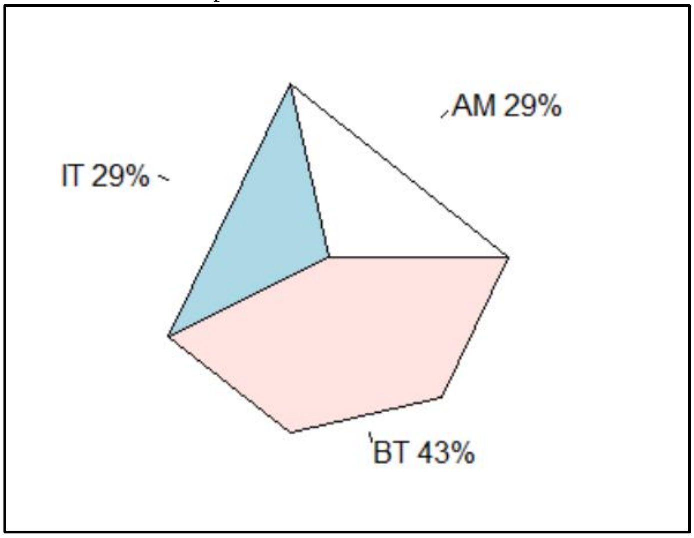


Chart 5 shows that, individually, amortization and impairment tests are equally weighted by respondents with 166 answers for each group or 29%. However, the use of an approach combining both methods, starting from regular and continuous amortization, applying the impairment test when signs of balances above the recoverable amount are verified, reached around 43% of the responses - BT - which is equivalent to 249 respondents.

Furthermore, could be considered an accounting choice allowing firms to choose the goodwill amortization or the impairment test, considering which approach is more suitable for the practical situation, however showing the main arguments to such selection.

(d) Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not?

CPC's answer*:CPC does because acquired goodwill is originated from a typical business combination, most specifically from the purchase price allocation approach, and internal goodwill can arise in different ways and can be closely related to other intangible assets. For this reason, CPC understands that both types of goodwills are linked sometimes with different cash-generating units. Nevertheless, each practical situation has to seem individual.*

Occasionally a firm can acquire another one and subsequently practices a merger; in this situation, it is impossible to distinguish the cash-generating units since both firms became only one.

(e) If amortization were to be reintroduced, do you think companies would adjust or create new management performance measures to add back the amortization 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?

***CPC's answer**:CPC believes that the use of both tools, amortization to produce a write-off regularly and the impairment to recognize unexpected losses, can create a virtuous cycle, mainly because firms that recognized an impairment loss from a goodwill write-off must to explain in which situations that loss was generated, for this reason, CPC does not believe that firms will create new performance measures because Ebitda already disregards amortizations, for instance.*

In this way, the actual performance measures do not include amortization in their composition. However, the goodwill that is never derecognized affects several performance measures such as return on assets, for instance.

(f) If you favour reintroducing amortization of goodwill, how should the useful life of goodwill and its amortization pattern be determined? In your view howwould this contribute to making the information more useful to investors?

***CPC's answer**:CPC indicates that one possible pattern is to consider the forecast timing before assuming the perpetuity. The use of the forecast timing could be useful because it is reasonable to think that all the synergies have to be produced and consumed in this period, and in the perpetuity, the present value of all assets tend to be close to zero.*

Question 8

Paragraphs 3.107–3.114 explain the Board'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 Board would be likely to require companies to present this amount as a free-standing item, not as a subtotal within the structure of thebalance sheet (see the Appendix to this Discussion Paper).

(a) Should the Board develop such a proposal? Why or why not?

CPC's answer:*CPC does not believe that this proposal deserves to prosper because investors and accounting information users can do this calculation using already available data in the balance-sheet together with technical notes.Maybe it is more useful to compare the goodwill amount against the purchased price.*

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

CPC's answer:*CPC disagrees that companies should present such an amount.*

Question 9

Paragraphs 4.32–4.34 summarise the Board'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 Board develop such proposals? Why or why not?

CPC's answer:*CPC believes that this proposal just to deserve to go ahead if the amortization were reintroduced because if there is evidence, see prior literature, that impairment loss is not recognized timely even using a yearly basis, it is possible to expect a worse timely recognition of the impairment losses without an obligation to test the goodwill annually.*

(b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21)? 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.

CPC's answer:*CPC believes that the amortization process could reduce costs significantly since only need one criterion to be performed.*

(c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23)? Why or why not?

CPC's answer: *CPC believes that impairment is not clearly defined as a robust tool to write-off goodwill, however in CPC views, the less robust scenario is the combination of both: (i) non-requirement to test impairment on an annual basis; and (ii) non-requirement to amortized goodwill regularly.*

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'sperformance (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?

CPC's answer: *It is not clear what kind of evidence supports the Board's view that these changes would reduce impairment tests' cost and complexity. CPC believes that the use of some cash flows from future uncommitted transactions can increase non-verifiable information and worsen loss recognition as it makes room for event information that may never come true.*

Since non-committed restructuring is not realistic and generalizing assumptions, therefore, CPC believes that this proposal has not to be developed.

Regarding post-tax, CPC believes that this proposal can increase the quality of impairment test, particularly for those business combinations that have considerable synergies from income tax reductions, which is not captured when the impairment test is conducted using the current version of IAS 36 rules that do not allow the use of post-tax figures. CPC believes that this proposal should be developed.

(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.

CPC's answer*: In CPC's view, there are no further issues than the post-tax allowance.*

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?

CPC's answer*: The best scenario to reduce costs in CPC's view is reintroducing amortization using the forecast timing from purchase price allocation and allows impairment test when an indication of non-recoverable is verified. Or, at least, do not share goodwill in more pieces than the procedures nowadays.*

(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?

CPC's answer*: Please, see the answer above.*

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?

CPC's answer:*CPC's view is that if an intangible asset can be identified and monetized individually, there is no reason for this item to be put together with goodwill since its performance can be followed segregated.*

(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?

CPC's answer: *Please see the answer above.*

(c) Would your view change if amortization of goodwill were to be reintroduced?Why or why not?

CPC's answer:*No, please see the answer above.*

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?

CPC's answer: *No, CPC's responses are based on the Brazilian financial accounting rules, converging to the IASB's rules.*

Question 14

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

CPC's answer: *No, there are no additional issues in CPC's view, excepted those commented during this comment-letter.*