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Direct dial: Tel.: (+31) 20 301 0391
Date: Amsterdam, 26 September 2014
Re: Comment on EFRAG Research Paper “Should Goodwill still not be Amortised?
Accounting and disclosure for goodwill”

Dear members of EFRAG,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your research paper “Should Goodwill still not be Amortised? Accounting and disclosure for goodwill” (hereafter: Research Paper).

The DASB consists of three delegations, those representing the preparers of financial statements (hereafter: preparers), those representing the users of financial statements (hereafter: users) and those representing the auditors of financial statements (hereafter: auditors).

In the appendix we respond to the questions raised in the research paper. If and when applicable, we indicate the diverging views of the respective delegations to these questions.

If you wish to discuss our comments further, please do not hesitate to contact me.

H. de Munnik



Chairman Dutch Accounting Standards Board

Enclosed: Responses to questions in Research Paper

Appendix.

Responses to questions in Research Paper “Should Goodwill still not be Amortised? Accounting and disclosure for goodwill”

Question 1

1. Do you agree that there should be a requirement to recognise goodwill as an asset and amortise it over subsequent periods? If so, do you support amortisation because:
 - (a) goodwill existing at acquisition date is consumed and replaced with internally generated goodwill over time, thus it should be allocated to subsequent periods as part of the cost of acquiring an entity;
 - (b) an impairment-only model is not sufficiently reliable due to the large use of assumptions in the impairment test (future cash flows, terminal growth rate and discount rate); or
 - (c) amortisation of goodwill, in addition to the impairment test, achieves an appropriate cost-benefit balance.

Answer 1

DASB is of the opinion that goodwill should be recognised as an asset and should be subject to an impairment test.

Preparers' and auditors' view

These board members are of the opinion that it should also be required to amortise goodwill over the appropriate periods for the reasons given above, in respect of which some give more weight to certain reasons than others.

Users's view

These board members believe that the current ‘impairment-only model’ (i.e. no amortisation) is superior to models that allow or require amortisation of goodwill. They believe that there are conceptual deficiencies in amortisation of goodwill, since nearly all acquisitions are based on the intention to continue the acquired activities without any predetermined end date; only in very rare cases a target company is acquired with the intention to discontinue the activities and even those rare cases application of the existing impairment-only model is appropriate. In fact for most acquisitions the (positive) terminal value at the end of the forecast period is a major component of the valuation of the target company. Therefore they see no conceptual basis for any annual amortisation of goodwill as this would imply that the value of the acquired company is expected to gradually fall to the net asset value of the acquisition. Apart from conceptual deficiencies, the amortisation charge tends to help mask underperformance of the acquired company, as it reduces the need for impairments. For investors it is very informative to be able to assess whether the acquisition strategy of a company resulted in many, few or no impairments. Impairments, even at a late stage, are informative as impairments (unlike amortization) provides insight in how realistic and transparent management has been in reporting underperformance of an acquisition.

Question 2

2. Assuming that there was a requirement to amortise goodwill, do you think that the IASB should:
 - (a) indicate what the amortisation period should be?
 - (b) indicate a maximum amortisation period?
 - (c) provide guidance on how entities should assess the amortisation period (for instance, by referring

to the expected payback period or the useful life of the primary asset)?
(d) allow entities to elect the amortisation period that they consider appropriate?

Answer 2

Preparers' and auditors' view

These board members think that the IASB should provide guidance on how entities should assess the amortisation period and should require disclosure of the facts and circumstances based on which the amortisation period is concluded.

They believe that the IASB should indicate a maximum amortisation period of 20 years with the rebuttable assumption that a longer amortisation period is permitted if and when sufficiently robust indicators evidence a longer amortisation period.

Users's view

These board members believe that, if and only if there should be a requirement to amortise goodwill, (a) indeed the IASB should indicate what the amortisation period should be; (b) there should be no maximum period, only a single fixed very long period; (c) there should be no guidance on how entities should assess the amortisation period as they prefer a single fixed very long period; (d) there should no room for entities to elect a subjective period for amortisation.

Question 3

3. The DP suggests the need for improved guidance in a number of areas in IAS 36. Do you think that the IASB should improve and/or provide additional guidance in relation to:
(a) the methods to determine the recoverable amount of the goodwill;
(b) the application of the value-in-use method;
(c) the identification of cash-generating units and allocation of goodwill to each unit; and
(d) the choice of the discount rate.

If not, please indicate why. Please state any specific suggestions for improvements if you have.

Answer 3

Preparers' and auditors' view

These board members believe that when subsequent amortisation will be required, the need for additional guidance on the goodwill impairment test will decrease and the current guidance will be sufficient, taking into account their response to question 2.

Question 4

4. The DP suggests a number of possible new disclosures about impairment testing for goodwill. Do you think that the IASB should consider improving requirements to:
(a) assist users in understanding the robustness of the modelling and the entity's current assumptions;
(b) provide confirmation of the 'reasonableness' of the entity's past assumptions; and
(c) assist users in predicting future impairment.

Answer 4

The DASB doesn't see any practical manner in which the IASB would be able to improve requirements to assist users in predicting future impairments.

Preparers' and auditors' view

These board members also believe that when subsequent amortisation will be required the need for new disclosures about impairment testing for goodwill will decrease. Nevertheless, they feel that an entity might be required to explain any changes from its past assumptions. They also believe that if any new disclosures were to be added, it would be appropriate to assess if current disclosure requirements are still relevant.

Users' view

These board members representing see virtue in the suggestions under 4a and 4b, and suggest that the reporting entity defines key performance indicators for each significant acquisition and reports how the acquired entity performed against those indicators in the three years following the acquisition. The IASB should also require entities to disclose the material acquisitions that contributed to the amount of goodwill on the balance sheet.

Question 5

5. IAS 38 requires that intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually. Assuming that there was a requirement to amortise the goodwill, do you think that the same requirement should be extended to other intangible assets with indefinite useful lives? In addition, assuming that there was a requirement to amortise goodwill, do you think that the current requirements of identifying intangible assets separately from goodwill should be reconsidered? If so, how?

Answer 5

Assuming that there was a requirement to amortise the goodwill the DASB is of the opinion that intangible assets with (in)definite useful lives should not be separately recognised but included in the goodwill amount, if and when the future economic benefits of such intangible assets are not sufficiently reliably measurable, separately from the goodwill.

Users' view

For the same reason, the users believe that the usefulness of the IASB's impairment-only model would be further enhanced if the IASB would abandon as well the recognition of intangibles with definite useful lives that only are created via acquisitions (i.e. customer lists, brand names, etc.). This would result in recognizing more goodwill instead.