



European Financial Reporting Advisory Group
35 Square de Meeus
B-1000 Brussels
Belgium

19th December 2017

Dear Ladies and Gentlemen

EFRAG Discussion Paper *Goodwill impairment test: can it be improved?*

We are responding to your invitation to comment on EFRAG's Discussion Paper *Goodwill impairment test: can it be improved?* on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Discussion Paper (DP).

"PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree that IAS 36 is in need of simplification and that the effectiveness of the impairment test can be improved. You indicate that the objective of the DP is to gather constituents' views on potential amendments to the impairment test and to promote debate on the topic. Our response is prepared in that light and focuses on those aspects of the standard that we believe should be prioritised in the IASB's research project on impairment, and that EFRAG should prioritise in developing its views.

Focus on amending the current impairment test

We agree that there is a need to simplify and clarify IAS 36 and we support the IASB's plan for a short-term project to amend the standard. We also agree that improvements to promote timely impairments and the effectiveness of the impairment test should be considered. We do not agree that any improvements that introduce new concepts should be considered in a short-term simplification project. Such improvements would be better suited to a more comprehensive project in the longer term which would likely include reconsideration of amortisation or impairment only approaches. New methods which include elements of an amortisation approach, such as EFRAG's proposed goodwill accretion method, and even the headroom approaches under consideration in the IASB's research project, should not be considered at this time.

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We set out below the aspects of IAS 36 that we consider to be in greatest need of improvement and/or areas where complexity may be reduced:

- When impairment testing should be performed
- What level to test
- Single model for recoverable amount

When impairment testing should be performed

It has been suggested that an optional qualitative test could reduce the burden of impairment testing for some preparers. We agree that some impairment tests appear to be unnecessary when the most recent recoverable amount calculation resulted in an amount that exceeded carrying amount by a substantial margin, the business is clearly performing well and does not have significant indicators of an impairment.

We note that paragraph 99 of IAS 36 already exempts preparers from performing a detailed impairment test in some circumstances, but this exemption is rarely used in practice as the criteria for usage are considered unrealistically high. Therefore, we believe that consideration should be given to emphasising paragraph 99 and revisiting the criteria therein to allow for greater use where justifiable. Alternatively, an optional qualitative test could be introduced, provided it is designed to be applied robustly and consistently and not merely as a means to avoid an impairment.

We agree that if a qualitative test is introduced, companies that take advantage of it should be required to disclose the basis for using it instead of a quantitative impairment test and the triggers that would cause them to undertake a quantitative impairment test.

What level to test?

Paragraph 80 of IAS 36 requires goodwill to be tested at the lowest level at which it is monitored for internal management purposes, which cannot be higher than an operating segment. In practice, many entities do not monitor goodwill on an ongoing basis and therefore may default to the level of the operating segment when performing the annual IAS 36 test. We believe the wording in the standard could be improved and it should refer to the monitoring of the performance of the cash generating unit or group of units to which goodwill is allocated.

While we acknowledge that this might increase the number of impairment tests that a company is required to perform, we believe such a change will improve the effectiveness of the impairment test because it would be performed at a more appropriate level and address, at least in part, some of the concerns raised that recognition of impairment losses may not be timely.



Single model for recoverable amount

There is mixed practice on the use of value in use (VIU) and fair value less costs of disposal (FVLCD). In most circumstances VIU and FVLCD would be expected to be similar due to the requirements for VIU to use a market-observable discount rate and cash flow assumptions that give greater weight to external evidence. Rarely do preparers calculate both VIU and FVLCD except when there are concerns about a possible impairment. Situations when these values differ significantly can be most challenging.

Therefore we would support a move to a single model to determine recoverable amount. FVLCD is based on the guidance found in IFRS 13. However many preparers may also find the detailed guidance in IAS 36 on the calculation of VIU helpful. We would support a model for the calculation of recoverable amount using post-tax cash flows and a post-tax discount rate, with clear guidance on the calculation of reasonably supportable cash flows, without IAS 36's restrictions on restructuring and enhancement cash flows.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Global Chief Accountant and Head of Reporting (44-207-804-2160) or Larry Dodyk, PwC Global Business Combinations Leader (973-236-7213).

Yours faithfully

A handwritten signature in blue ink, appearing to read "H. Daubeney", with a horizontal line underneath.

Henry Daubeney
Global Chief Accountant and Head of Reporting
PricewaterhouseCoopers International Limited

