

The Swedish Financial Reporting Board

RFR-rs 2014:13

EFRAG
35 Square de Meeus
B-1000 Brussels
Belgium

Dear Sirs,

**Re: Questionnaire - Should goodwill still not be amortised? –
Accounting and disclosure for goodwill**

The Swedish Financial Reporting Board is responding to your invitation to comment on the Questionnaire on goodwill impairment and amortisation.

We welcome the initiative by EFRAG, ASBJ and the OIC to raise the very important question of accounting for goodwill. Due to the limited official period for submitting comments on the proposal our comments are mainly based on previous comments in these issues.

In summary we have the following views:

- We believe that acquired goodwill is an asset that is consumed and replaced with internally generated goodwill. Amortisation therefore ensures that the acquired goodwill is recognised in profit or loss and no internally generated goodwill is recognised as an asset in its place.
- We believe that all assets consumed should be expensed and we therefore believe that all intangible assets with finite lives should be amortised, although with longer useful lives in certain cases.
- We believe that there are a number of methodology problems with impairment testing and that creating impairment tests with sufficient accuracy is very difficult in the majority of cases.
- Reintroduction of amortisation would require new and amended disclosures but amortisation should also mean that goodwill impairment tests would be less critical for the users and consequently require less disclosures.

Enclosed you find our detailed answers.

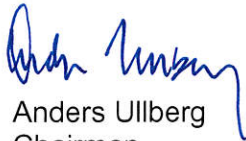


Rådet **för** **finansiell rapportering**

If you have any questions concerning our comments please address our Executive member Claes Janzon by e-mail to: claes.janzon@radetforfinansiellrapportering.se

Stockholm, 29 September 2014

Yours sincerely



Anders Ullberg
Chairman

Enclosure 1

Questionnaire on goodwill impairment and amortisation

Question 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.

Our answer: From our perspective, acquired goodwill is an asset that is consumed. Under the current rules this consumption will less likely appear in the profit or loss. This is due to the fact that acquired businesses normally are integrated into the existing businesses within the acquiror. Therefore, the impairment tests are performed on a level that also include organically grown businesses and previously acquired businesses. The result is that the goodwill arising from a specific acquisition is protected by previous surpluses of recoverable amounts over carrying amounts (headroom) within the CGU. The risk of a future impairment of goodwill is also reduced due to the fact that any consumption of existing goodwill is replaced with internally generated goodwill over time.

Amortisation ensures that the acquired goodwill is recognised in profit or loss. Conceptually, amortisation is a method of allocating the cost of acquired goodwill over the periods it is consumed, and it is consistent with the approach taken to other intangible and tangible fixed assets that do not have indefinite useful lives. There is no conceptual reason for treating acquired goodwill differently.

Question 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?



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Our answer: The useful life of acquired goodwill cannot be predicted with a high level of reliability. However, systematic amortisation over estimated useful life, with a maximum period, provides an appropriate balance between conceptual soundness and operability at an acceptable cost. To find reasonable useful lives for goodwill is of course not easy but amortisation will lead to that the goodwill eventually is expensed. We believe that all assets consumed should be expensed and we therefore believe that all intangible assets should be amortised although with longer useful lives in certain cases.

Question 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.

Our answer:

We believe that there are a number of methodology problems with impairment testing due to the issues raised under question 1; internally generated goodwill, goodwill allocated to sizeable CGU:s, etc. It is doubtful if the current impairment model can really verify the recognised goodwill amounts in many situations and we are not sure of the real value for users of the tests.

We appreciate the thoughts presented in the discussion paper but doubt that the presented alternatives can be carried out without considerable more resources put in and probably not creating more accurate information. We believe that creating impairment tests with sufficient accuracy is very difficult in the majority of cases and we believe that the cost/benefit of additions to the current impairment rules of IFRS would be negative. If goodwill is amortised, this should reduce the problem and put less pressure on impairment tests and disclosures.



Rådet för finansiell rapportering

Question 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.

Our answer: Reintroduction of amortisation would require new and amended disclosures but amortisation should also mean that goodwill impairment would be less critical for the users and consequently require less disclosures. We believe that the rather heavy amount of disclosures, that are required for intangible assets with indefinite useful lives, in essence is an effect of the standard setter's acknowledgment of the increased reliance that must be placed on management's cash flow projections under the non-amortisation approach to goodwill. The implementation of a non-amortisation approach to goodwill has imposed a further significant disclosure burden on listed entities.

We agree that a thorough review of the disclosures, should be made in connection with a review of the accounting for goodwill and other intangibles with an indefinite useful life. However, we believe that much more focus should be put on reducing the amount of disclosures. The suggestions under (b) and (c) above, provide confirmation of the 'reasonableness' of the entity's past assumptions and assist users in predicting future impairment, are examples of disclosure areas that we believe are to farreaching.

Question 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?

Our answer: As stated under question 2, we believe that all assets consumed should be expensed and we therefore believe that all intangible assets should be amortised although with longer useful lives in certain cases.

In our opinion, it is too challenging and demanding to separate intangible assets from goodwill compared to the information value for the users. We see a challenge to separate cash flows from these intangible assets. In our contacts with users we have understood that users do not use the information based on the separation. To present only the intangible assets acquired, for instance trademarks, and not the trademarks that are developed in the company can sometimes be misleading and hard for users to fully understand. From our experience it is common that preparers need to make this clear for users.

