MINISTERIO
DE ECONOMÍA Y
COMPETITIVIDAD

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

DP-Should goodwill still not be amortised? Accounting and disclosure for goodwill
Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeüs
Brussels B-1000
Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on the EFRAG Discussion Paper "Should goodwill still not be amortised? Accounting and disclosure for goodwill"

First of all, ICAC welcomes the initiative of exploring alternative approaches regarding the accounting and disclosure requirements of acquired goodwill, and provide additional considerations regarding the accounting of intangible assets.

Our responses to the Discussion Paper questions are explained below.

Question 1

Do you agree that there should be a requirement to recognize goodwill as an asset and amortise it over subsequent periods? If so, do you support amortization 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) Amortization of goodwill, in addition to the impairment teste, achieves an appropriate cost-benefit balance.

We agree with considering goodwill as an asset and also we support to explore a possible impairment-amortisation model as alternative to the current impairment-only approach. We think that the three arguments proposed are all reasonable and not exclusive.

Question 2

Assuming that there was a requirement to amortise goodwill, do you think that the IASB should:

(a) Indicate what the amortization period should be?

(b) Indicate a maximum amortization period?

(c) Provide guidance on how entities should assess the amortization 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?

We think that goodwill should be amortised in its useful life providing guidance on how entities should calculate the amortisation period, combining the guidance with an illustrative maximum period, ten years. This maximum would have the character of a rebuttable presumption.

In this case, the impairment test would not be so demanding, establishing only the annual test when the amortisation period would be larger than ten years. When the amortisation period would be shorter than ten years, the impairment test should only be made when there is some evidence.

As a subject to study would be the possibility that, in some justified cases, the goodwill could have an indefinite useful life, with an annual impairment test also.

Question 3

The DP suggests the need for improved guidance in a number of areas I 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.

We agree with the need for improving the IAS 36 in order to reduce the subjectivity and cost of the impairment test. We think that it would be interesting to introduce a discussion about what fixed parameters could be establish in the IAS 36 that simplify the impairment test increasing the comparability of the financial statements.

To illustrate this, the Spanish local impairment test regulation defines, as the current market risk-free rate of interest, the less risk interest rate related to the economic environment where the entity develops its activity. The said regulation proposes, for the entities that develop their activities in Spain, the 10- year yield of the Spanish Public Debt.

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.

We support improving the disclosures about impairment in order to increase the transparency of the test and to achieve a better understanding of the entity's assumptions and of the variances with actual results.

We think that it is especially interesting the proposed reconciliation of the total goodwill allocation to the CGUs. Related to this, it would improve the usefulness of the information in cases of modifications in the CGUs, supported by the paragraph 87 of the IAS 36. Especially it would help to understand the cases where the entity, in a first step, allocated the goodwill upwards to bigger CGU's, and, in a second step, reorganizes the goodwill in lower levels of CGU's, which sometimes can hide impairments in the new CGU structure.

Related our response to the second question, if the goodwill amortisation is reintroduced, we think that it would be necessary to disclose how the entity has calculated the goodwill useful life whether the entity does not use the maximum period.

Question 5

IAS 38 requires that intangible assets with indefinite useful lives are not amortised but tested for impairment at least annual. 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?

We think that the accounting of assets with indefinite useful lives and accounting of goodwill should go through parallel paths. Having in mind that they are similar assets and the boundaries between them are not always clear, a similar accountancy would prevent that entities could be biased when it comes time to distribute the value between the goodwill and assets with indefinite useful lives.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Ana Mª Martínez-Pina
Chairman of ICAC

Madrid, 29th September 2014