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CC:
IASB

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EFRAG DP GOODWILL IMPAIRMENT TEST: CAN IT BE IMPROVED?

Representing preparers' point of view, the Swedish Enterprise Accounting Group (SEAG) welcomes the opportunity to comment on the Discussion Paper (DP).

As pointed out before, SEAG believes that goodwill amortization should be reintroduced. We seriously doubt that it is possible to create a model for impairment tests that can measure intangible assets and goodwill with sufficient accuracy. In our view, compulsory amortization of goodwill would be easier and more efficiently communicated, both externally and, not less important, internally within our companies. We have expressed this standpoint both to EFRAG and the IASB previously.

Having said that, we welcome EFRAG's work as presented in the DP and find the efforts to try to find more efficient methods for impairment testing very important. Although we don't agree to all presented ideas, as explained further in our answers to the questions, we find the discussion valuable and a source of a lot of good thinking. We are clearly positive to a number of EFRAG's suggestions that we believe could save some resources without really losing precision or leading to reduced quality of the financial information.

Our comments to the questions posed in the DP are provided in the Appendix below.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE



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The Swedish Enterprise Accounting Group (SEAG) represents more than 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.

Appendix – Comments on the specific questions raised by EFRAG

Q1.1 Do you agree with the additional guidance on how an entity should allocate goodwill?

SEAG seriously doubt that it is possible to create impairment tests that can provide the information needed to measure and assess intangible assets and goodwill with enough accuracy. We don't believe that more specific rules for allocating goodwill to CGUs will lead to any improvements. The suggestions in the DP will definitely create more work and considering all difficulties around fair value measurement we don't believe that this would lead to any improvements of the information. Also, the suggested additional disclosure requirements would create more work without creating much value for users of the financial statements.

Q1.2 Do you have any other suggestions to improve this area of the goodwill impairment test?

No, as stated above we don't believe that more specific rules for allocating goodwill to CGUs would lead to any improvements.

Q2.1 Do you agree with the introduction of an initial qualitative assessment?

We are clearly positive to the idea to introduce a "step zero" in the impairment tests. This could really save some work. We clearly understand that this could lead to unpleasant surprises for companies if not handled correctly but see no risk that our companies would not be able to handle this. This should be accompanied by suggested indicators, such as those presented in paragraph 2.28 of the DP, but we find it important that they are presented as suggestions and not made mandatory. We have also discussed that if a "step zero" is combined with extensive disclosure requirements, this could lead to that the needed amount of resources will not be reduced.

Q2.2 Do you have any other suggestions to improve this area of the goodwill impairment test?

No. This is an area that draws a lot of resources in our companies without creating much value both externally and internally.

Q3.1 Do you agree with having a single method for determining the recoverable amount?

In the vast majority of cases our companies apply value in use for their impairment tests and the need to use fair value less cost of disposal (FVLCD) comes rather seldom. However, we believe that FVLCD is the correct method in certain cases. Consequently, both methods should be kept as this really isn't considered to be a problem.

Q3.2 Do you agree with the inclusion of future restructurings in the calculation of the value in use?

We find that it would be very beneficial if companies' business plans and forecasts could be used for impairment testing without corrections. To include future restructurings would enable that - provided that also future investments

are included. We believe that the text in paragraph 2.51 in the DP is too restrictive, presumably in order to mitigate too optimistic forecasts. However, we believe that this risk is often exaggerated. Normally companies' business plans involve commitments for segments and group companies and their leaders will be held responsible for reaching them.

Q3.3 Do you agree with allowing the use of a post-tax discount rate?

Yes, we certainly agree! We have never really understood why this should not be allowed and can't see any negative consequences by allowing this as an alternative.

Q3.4 Do you agree that the impairment test should target internally generated goodwill? Is the goodwill accretion an acceptable way to do so?

Internally generated goodwill is one of the main problems with today's model. As stated above we don't believe that impairment tests can be constructed to really solve this dilemma and therefore we strongly argue for goodwill amortization.

We are very sceptical to the goodwill accretion model suggested by EFRAG. As we see it, the model adds complexity to impairment testing without really improving it. We also fear that the model would be difficult to communicate, both externally and internally, and therefore it will be hard to achieve acceptance and legitimacy for its outcome.

We generally believe that IFRS has gained good acceptance in Sweden. The critique that was frequently expressed when IFRS was first introduced has basically silenced. However, introducing additional complexity to the impairment tests may create new scepticism which would be unfortunate.

Q3.5 Do you have any other suggestions to improve this area of the goodwill impairment test?

No. However, we would like to highlight the fact that goodwill impairment testing is an area that draws a lot of resources in the reporting companies. The information value of the outcome of all this work is not always apparent.

To investigate how much time that is generally spent on the yearly impairment tests, as well as on purchase price allocations, we have recently completed a short survey among our approximately 50 member companies. Naturally, the results show that administrative burden of these accounting tasks will vary according to the size and nature of goodwill, the business model of the reporting company etc. However, the survey confirms that significant time is spent on impairment testing even in companies with relatively small amounts of reported goodwill. For these companies the requirements can be questioned from a cost-benefit perspective.