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**Our ref :** RJ-EFRAG 585 C  
**Direct dial :** 0031-20-3010235  
**Date :** Amsterdam, January 2<sup>nd</sup> 2018  
**Re :** Discussion Paper DP/‘*Goodwill impairment test: Can it be improved?*’

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Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment on the Discussion Paper (DP) ‘*Goodwill impairment test: Can it be improved?*’.

First, we would like to thank EFRAG, especially mr. F. Poli and mr. P. Alves, for their presentation on the results of your quantitative study on goodwill in the DASB meeting in Amsterdam in January, 2017.

We have studied the DP, considered the scope and objectives of the DP and have discussed the ‘Questions to constitutions’ as included. Hereafter we set out our responses to these questions.

#### **Question 1 – How an entity should allocate goodwill**

We have no objection to include additional guidance in IAS 36 which describes how an entity should allocate goodwill based on the proposed allocation methods (suggestion 1). With regard to your suggestion to include a disclosure requirement for adding information on the composition of goodwill as per acquisition in IAS 36 (suggestion 2), we are of the opinion that such a disclosure is in most cases not relevant over time - for example in circumstances of subsequent acquisitions - and therefore should not be a required disclosure.

We have no suggestions for further improvement of this area of the goodwill impairment test.

#### **Question 2 – When an entity should determine the recoverable amount**

Although we have no objection to the introduction of a qualitative assessment (‘Step Zero’) in IAS 36, in our opinion it will not have a significant impact in practice. Moreover, IAS 36.99 already allows the use of the most recent detailed calculation of the recoverable amount of a CGU made in a preceding period under similar criteria (amongst other when the likelihood of an impairment loss is remote) and therefore offers a similar option to the Step Zero principle.

We have no suggestions for further improvement of this area of the goodwill impairment test.

#### **Question 3 – How an entity should determine the recoverable amount**

##### Question 3.1: Single method for determining the recoverable amount

We do not agree with your suggestion to allow only one method for determining the recoverable amount. We are of the opinion that both methods have their own importance and relevance and that eliminating one method will result in a too narrow approach for the calculation of the recoverable amount.

We therefore would also like to emphasize that we do not support such a narrow approach for all (other) assets in the scope of IAS 36 as mentioned as a possible consideration in paragraph 2.45 of the DP.

Question 3.2: Inclusion of future restructurings in the calculation of value in use

We support your suggestion to allow any considerations - under the conditions as addressed in paragraph 2.51 of the DP - of planned future restructurings (inflows and outflows) to be incorporated in the cash flow projection for the determination of the ViU of the CGU.

However, we are of the opinion that future capital enhancements – under similar conditions - have to be added to the calculation method for determination of the value in use as well.

We would like to emphasize that to prevent improper use sufficient requirements should be included for capital enhancements, similar to the conditions for restructurings as stated in paragraph 2.51 of the DP, to ensure that the standard will reflect adequate constraints for the identification of enhancements.

Question 3.3: Use of post-tax discount rate

We agree with your observation that entities usually use WACC (post-tax rate) as a starting point for determining the discount rate and we therefore understand that the use of a post-tax rate can be a useful consideration. However, we are of the opinion that allowing the use of a post-tax discount rate will not result in less complexity or any further improvement of goodwill impairment testing based on the value in use calculation method. Moreover, we expect that allowing post-tax rates when determining the ViU will raise new questions, such as how to adjust the future cash flows for tax consequences or how to reflect deferred taxes in the carrying amount of the CGU.

Question 3.4: Goodwill accretion

We disagree with your suggestion requiring entities to eliminate the effect of the internally generated goodwill as an adjustment based on the goodwill accretion method when testing purchased goodwill. In our opinion the proposed goodwill accretion method will result in more complexity and it seems to be rather arbitrary. For instance additional assumptions have to be made in order to determine a proper accretion rate. We are not convinced that this will lead to a reduction of complexity or enhancement of impairment tests, mentioned in paragraph 1.14 as the objectives of this DP.

Question 3.5: Other suggestions

As an other suggestion for further improvement of goodwill impairment testing, we are of the opinion that the principle of ‘the lowest level at which the goodwill is monitored for internal management purposes’ (IAS 36.80) is rather vague. This may lead to diversity in practice in identifying the applicable CGU level. We suggest to investigate further improvements in this respect.

If you have any questions please do not hesitate to contact me.

Yours sincerely,

prof. dr. Peter Sampers, Chairman Dutch Accounting Standards Board