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29 December 2017

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

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments in order to contribute to the debate on the improvement of the impairment model of IAS 36 *Impairment of Assets*.

We welcome the EFRAG efforts in developing potential amendments to the goodwill impairment test in order to contribute to the future discussion of IASB on this topic. We generally support the opportunity to enhance the application and effectiveness of the impairment test and the necessity to reduce the complexity of the test, and to achieve a better balance between cost and benefits. However, it should be carefully considered whether an attempt to improve the effectiveness of the impairment test would create administrative burdens, which are even higher than those related to the reintroduction of the amortization, without any significant benefit for users.

Our detailed comments are set out below.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò

(Chairman)

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

We agree that the recognition of goodwill should not occur in an amount that exceed the expected synergies. However, we are concerned that the proposal to introduce an "allocation ceiling test" to identify an excess of the goodwill over the aggregation could add unnecessary costs and complexity. Therefore, we suggest further considering the proposal of introducing any additional guidance on a cost-benefit assessment.

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

We agree with the issue that in some circumstances the determination of the recoverable amount is perceived as a time-consuming and costly exercise that has no real practical benefit. Therefore, considering also the disadvantages highlighted in the DP, we support the introduction of an initial qualitative assessment of the likelihood of an impairment loss for each CGU to which goodwill has been allocated, based on all relevant facts and circumstances that could affect the recoverable amount of the CGU. We also see merits in considering that an entity would not be required to determine the recoverable amount when, and only when, the likelihood of an impairment is assessed to be remote, that is, when it is highly probable that the recoverable amount exceeds the carrying amount. However, it should be further evaluated the effectiveness of such a proposal in reducing substantially the cases in which entities do not measure a recoverable amount of CGU which are not impaired. We are concerned that using a threshold of "highly probable" could result in calculation of recoverable amount in almost all the cases and therefore not reducing the costs of implementation of the standard. On the other hand, it should be considered whether reducing the threshold for the qualitative assessment would lead entities not to perform impairment test when it would had been necessary.

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

We acknowledge the concerns about difficult interactions between VIU and FVLCD when an entity has to compute both of them. However, we do not consider critical the determination of recoverable amount as the actual provision of IAS 36 allow to not determining both an asset's fair value less costs of disposal and its value in use when either of these amounts exceeds the asset's carrying amount. Therefore, we do not consider necessary to require only one method to simplify the impairment test.

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

We acknowledge that it has been claimed that the exclusion of the effect of future restructurings do not reflect how acquirers price the business. However, we are concerned that this proposal would result in a change of the structure of IAS 36 and would result in a greater alignment between FVLCD and VIU.

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

We acknowledge that determining the discount rate could be a critical area of the impairment test. Therefore, we consider that the proposal to allow entities an election between a pre-tax or post-tax chosen calculation and disclose the basis could represent an important simplification and cost reduction.

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

We acknowledged that since goodwill is not directly measurable and can only be tested at the CGU level, there are a number of 'buffers' that can potentially offset an impairment loss and one of these is represented by the implicit recognition of internally generated goodwill. We consider that the "accretion approach", suggested in the EFRAG DP, has the merit to try to mitigate the buffering effect of internally generated goodwill. However, we do not consider that the model helps to measure the "consumption of acquired goodwill over the time". Moreover, the proposed model implies that goodwill recognized in the financial statements represents the so-called core goodwill that is the extra-benefit of synergies arising from the combination. However, applying IFRS 3 we are aware that this is not always the case, since goodwill often includes the effects of accounting mismatches (deferred tax liabilities recognized at an amount other than fair value). In addition, the model would work if the pattern and length of the extra-benefits arising from the combination were known; otherwise, it only creates indefinitely a buffer to be added to the goodwill figure in order to try to anticipate any impairment loss. We note that one of the reasons why the amortization of goodwill was abandoned is that it is very difficult to estimate an amortization period of goodwill at inception. However, we consider that such an assessment of the amortization period would be less costly and burdensome than the proposed impairment model. We therefore suggest reconsidering such a proposal in comparison to the option of reintroducing amortization of goodwill.