

European Financial Reporting Advisory Group
35 Square de Meeûs
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Belgium

Datum
20 December 2017

**Goodwill impairment test: Can it be improved?
EFRAG Discussion Paper (June 2017)**

Dear Madam or Sir

The German Insurance Association (GDV) appreciates the opportunity to respond to the EFRAG Discussion Paper "Goodwill impairment test: Can it be improved", as issued by EFRAG on the 29 June 2017 for public comments.

The GDV appreciates the considerable efforts of EFRAG to continually stimulate the debate on the appropriate treatment of the purchased goodwill in IFRS financial statements. The current accounting treatment needs an urgent revision. While the internally generated goodwill is rightly not recognised in IFRS financial statements, the goodwill purchased in a business combination is treated as a recognisable intangible asset with an indefinite useful life. Subsequently it is measured via the impairment only approach. This different treatment creates an accounting asymmetry. In addition, the existing prohibition of the systematic goodwill amortisation is highly problematic as the impairment only approach is burdensome and costly to apply (and audit). Furthermore, it has significant negative consequences as it incentivises merger & acquisition activities and creates an accounting disadvantage for entities growing organically.

Although we do not provide detailed comments to all the particular questions asked in the Discussion Paper we like to highlight our key concerns:

- The Discussion Paper does not deal with the linear amortization of the goodwill. We view this inappropriate as the explicit scope exclusion (paragraph 1.16 on page 11) creates the wrong impression that amortization approach is not an alternative to be considered further.

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The GDV has the unchanged firm view that the current mandatory **impairment only approach** for purchased goodwill is not the appropriate solution and **should be abolished**. We believe that the IASB needs to consider the re-introduction of amortization of the purchased goodwill without any further delay (Question Q3.5). For our rationale in detail we kindly refer to the explanations given in our letter to the IASB regarding the Post-Implementation Review of IFRS 3. We also refer to our comments on the previous Discussion Paper of EFRAG, ASBJ and OIC “Should Goodwill still not be amortised? Accounting and disclosure for Goodwill”, issued on the 22 July 2014.

- The Discussion Paper outlines the new EFRAG proposal, i.e. the **goodwill accretion approach**. We neither support this approach nor the **pre-acquisition headroom approach** discussed currently by the IASB as an alternative on how to improve the current impairment-only-approach (Question Q3.4). Consequently we do not think that further work should be conducted on the ways how to integrate the two methods (paragraph 2.78 on page 23).

The GDV opposes any additional layer of complexity or operational cost associated with the approaches discussed in the EFRAG Discussion Paper or at the IASB level. We urge EFRAG to revisit the direction of the research work on the goodwill accounting and to focus more on ways which would really simplify the accounting practice in a significant manner and contribute to cost reduction at preparers and users side. Consequently, we do not think that requesting additional calculation steps or introducing additional disclosure requirements (Q1.1) serves this purpose.

Finally, we do not believe that the suggested removal of one of the methods to calculate the recoverable amount would be a significant operational relief (Question Q3.1). Neither have we the view that the introduction of a “Step Zero” (Question Q2.1) would reduce the operational burden of the impairment-only-approach when considering the advantages of performing calculation on a yearly basis instead of performing them on an irregular triggered basis only.

If you like to discuss our comments in more detail, we would be delighted.

With best regards


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