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DIE DEUTSCHEN VERSICHERER

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Date
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Discussion Paper of EFRAG, ASBJ, and OIC:
Should Goodwill still not be amortised? Accounting and disclosure for Goodwill

Dear Madam or Sir

The German Insurance Association (GDV) appreciates the opportunity to comment on the Discussion Paper "Should Goodwill still not be amortised? Accounting and disclosure for Goodwill", as issued by EFRAG, ASBJ and OCI on the 22 July 2014 for public consultation.

The GDV appreciates the considerable efforts of EFRAG and the engaged standard setters of Japan and Italy to stimulate the global debate on the appropriate treatment of the purchased goodwill in IFRS financial statements. We agree with the main conclusion of the Discussion Paper that the existing mandatory **impairment only approach for purchased goodwill is not the appropriate solution**. We believe that the IASB needs to consider the reintroduction of amortization of the purchased goodwill. You will find our comments regarding the specific questions of the Discussion Paper in the annex. For our detailed rationale we refer to the explanations given in our letter to the IASB regarding the Post-Implementation Review of IFRS 3 which we attach to your kind attention.

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

With best regards

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Annex

Question 1

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

In our assessment to continue to require the impairment only approach for purchased goodwill in IFRS is very problematic. Therefore, we fully support the tentative conclusion in the Discussion Paper that the **reintroduction of goodwill amortisation would be appropriate** (paragraph 86 of the Discussion Paper). In addition, we share the observation of paragraph 100 of the Discussion Paper.

We have the view that reintroducing amortisation circumvents the recognition of internally generated goodwill. In addition, it reduces managerial discretion as well as it is preferable in terms of cost-benefit balance for reporting entities. Therefore, in our view there is no predominant reason for amortisation but rather a combination of important valid reasons that strongly support reintroducing amortisation of goodwill.

For our detailed rationale we kindly refer to the explanation we have provided to the IASB with our comment letter from 30 May 2014 on the IASB's recent Request for Information, Post-Implementation Review: IFRS 3 Business Combinations.

Question 2

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

(a) indicate what the amortisation period should be?

(b) indicate a maximum amortisation period?

(c) provide guidance on how entities should assess the amortisation 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 recommend that a purchased goodwill shell be written off within a maximum predefined period of years on a linear basis. Therefore, we support the tentative conclusion in the paragraph 85 of the Discussion Paper.

In particular, we fully support the alternative (b), i.e. the view that the IASB should **indicate a maximum amortisation period**. In our view, it is not appropriate to indicate a predefined amortisation period (alternative (a)) because the consumption of purchased goodwill depends on the nature of business and on the speed of changes in the business environment. These differences cannot be captured by a predefined amortisation period. In our view the indication for a maximum amortisation period would enhance the relevance of financial information as it would address the conceptual concerns we have with the impairment only approach.

We don't believe that the alternatives (c) or (d) would be appropriate or feasible for the IASB to be accepted as stand-alone alternatives as they might compromise comparability to a too large extent and in addition would potentially require overly extensive disclosure requirements to overcome this deficiency.

In addition, also the new Accounting Directive 2013/34/EU defines a maximum amortisation period for the purchased goodwill. In addition, we encourage the IASB to consider the US-developments in this area as well summarised in the Discussion Paper.

For our further comments we kindly refer to the comment letter from 30 May 2014 we have provided to the IASB on its recent Request for Information, Post-Implementation Review: IFRS 3 Business Combinations.

Question 3

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

In general, we agree with the tentative conclusions of the Discussion Paper (paragraph 120). In addition, we believe that the relevance of impairment testing for goodwill will significantly decrease if the IASB follows the suggestion/request to remove the impairment only approach and decides to reintroduce the mandatory linear amortisation approach. Therefore, we think that any requests for any new guidance should be very carefully evaluated after the essential decision is made by the IASB.

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 would like to express our appreciation regarding the attempt and related efforts the involved parties have undertaken to evaluate the existing disclosure requirements of IAS 36 with regard to impairment testing for goodwill.

In particular, we agree with the tentative conclusion of paragraph 163 of the Discussion Paper that improving disclosure requirements of IAS 36 “does not necessarily imply that each requirement discussed in paragraphs 137 to 162 above [i.e. in the Discussion Paper] needs to be added to the disclosure requirements in IAS 36.“

We believe the effectiveness of any disclosure requirements and their cost-benefits-relation need to be carefully reconsidered (paragraph 130 (d) of the Discussion Paper).

Question 5

IAS 38 requires that intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually. 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 tend to believe that the same requirements should apply to other intangible assets with indefinite useful lives in the scope of IAS 38 Intangible Assets. We recommend that, at least, the IASB should deliberate if a particular rebuttable presumption should be introduced in IAS 38.

Furthermore, we also believe that the current overly extensive requirements regarding identifying intangible assets separately from goodwill should be than carefully reconsidered (paragraphs 168, 169 and 170 of the Discussion Paper).

We have the view that especially the latter aspect can be seen as having a potential to provide a significant operational relief for preparers of financial statements without compromising the benefits for external users in a material way. We do acknowledge that this outcome can only be provided if similar accounting requirements apply to the purchased goodwill and to the purchased intangible assets with indefinite lives. Finally, we argue that the reporting entities should be allowed to exercise judgment if separation exercise fulfils the cost-benefit constrains.