



To: Mr Jean-Paul Gauzes
EFRAG Board President
EFRAG
Square de Meeûs 35 – 1000 Brussels

From: Insurance Europe

Date: 8 December 2017

Reference: ECO-FRG-17-138

Subject: EFRAG's Discussion Paper "Goodwill impairment test: Can it be improved?"

Dear Mr Gauzès,

Insurance Europe welcomes the opportunity to comment on the EFRAG's Discussion Paper "Goodwill impairment test: Can it be improved?", issued by EFRAG on the 29 June 2017 for public comments.

Significant concerns have been raised on the existing accounting regime for goodwill purchased in a business combination, i.e. impairment only approach, during the recent IASB's Post Implementation Review on IFRS 3 Business Combinations. Consequently, the IASB decided to approach these concerns. Specifically, the IASB aims to find out whether existing accounting regime should be maintained and improved or whether the re-introduction of the mandatory amortization of goodwill should be proposed to the IFRS constituency as a next step. Insurance Europe appreciates the considerable efforts of EFRAG to stimulate the discussion on different approaches for goodwill accounting at European level with all interested stakeholders.

The European insurance industry takes a particular interest in the ongoing debates at the level of the IASB and EFRAG on the future of goodwill accounting in IFRS. Insurance Europe agrees that the current goodwill accounting treatment under IFRS needs a 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. This creates an accounting asymmetry. However, **Insurance Europe neither supports the pre-acquisition headroom approach explored currently by the IASB nor the goodwill accretion approach proposed in the EFRAG Discussion Paper** as an alternative on how to improve the current impairment-only-approach (Question Q3.4). **Insurance Europe opposes any additional layer of complexity and operational cost associated to the approaches discussed in the EFRAG Discussion Paper or at the IASB level.**

Consequently, Insurance Europe does not support the implicit proposal that further work should be conducted on the ways how to integrate the two methods (paragraph 2.78). We urge EFRAG to revisit the direction of the research work on the goodwill accounting issue and to focus more on ways which really simplify the goodwill 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 (e.g. reconciliation of the total goodwill allocated to each CGU and tracking of goodwill by individual acquisition, paragraphs 2.18-2.20) serves this purpose. Insurance Europe also does not believe that the suggested removal of one of the methods to calculate the recoverable amount would provide be a significant relief (Question Q3.1). Neither have we the view that the introduction of a (optional) "Step Zero" (Question Q2.1) reduces the operational burden of the impairment-only-approach when considering the advantages of performing calculation on a regular yearly basis instead of performing them on an irregular triggered basis only. On this basis, Insurance Europe suggests to **consider creating an EFRAG Goodwill Accounting Working Group (GAWG)** to utilize current existing practical expertise of European accounting practitioners in this respect.



Finally, Insurance Europe has the view that the general underlying controversy on the right approach for **goodwill accounting needs a pragmatic solution**, i.e. a compromise approach that is pragmatic from an operational perspective and yet retains much of the relevant conceptual underpinning. This **might take the form of allowing for an accounting policy choice**, i.e. allowing amortization and impairment only as optional approaches for the reporting entity to choose between at the reporting entity level, with appropriate disclosure. The rationale for our suggested approach is set out in detail in our position paper (ECO-FRG-16-137) which we attach for your convince.

Please do not hesitate to contact us if you would like to discuss our comments in more detail.

Yours sincerely

Olav Jones,
Deputy Director General & Director ECOFIN