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DIE DEUTSCHEN VERSICHERER

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Date
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Business Combinations - Disclosures, Goodwill and Impairment
IASB's Discussion Paper (March 2020)

Dear Mr Hoogervorst

On behalf of the German Insurance Association (GDV) we appreciate the opportunity to comment on the questions asked in the Discussion Paper "Business Combinations - Disclosures, Goodwill and Impairment", issued by IASB in March 2020 for public consultation.

In general, we fully support the efforts of the IASB undertaken to respond to the issues and concerns raised by stakeholders in the post-implementation review on IFRS 3 *Business Combinations*. However, we are **concerned about the timeline of the project** considering the matter of fact that the current consultation is in the discussion paper stage only and the most crucial issue regarding the future of the goodwill accounting approach remains an issue of controversy but is perceived as still undecided.

The German insurers continue to have the firm view that the currently applied **impairment only approach is not working as intended** and hence the related ban on the goodwill amortisation should be abolished as soon as possible. There is an urgent need for a change to an accounting regime that ensures proper accounting outcomes. And we don't believe that the proposed set of additional disclosure requirements makes such a regime change needless. The IASB's own extensive analysis regarding the shielding effect provided the well-substantiated evidence that the impairment only approach does not address the goodwill measurement directly and **it cannot be improved at a reasonable cost.** The only consequence we consider to be sensible would be hence to introduce an approach which does not have these essential deficiencies and hence works robustly and at a reasonable cost.

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As a matter of principle, the accounting is based on conventions, but they should deliver proper and understandable results and they shouldn't be inconsistent to each other. The currently applied impairment only approach is disadvantaging companies growing organically while companies growing externally via mergers and acquisitions are recognising the goodwill generated internally via no amortisation of the goodwill acquired.

Overall, we strongly believe that it is – also from the **financial stability perspective** and because of the related pro-cyclicality concerns – verily **overdue to reintroduce in IFRS the amortisation of goodwill acquired** with a maximum predefined amortisation period (e.g. 10 years). We urge the IASB to work on a pragmatically motivated narrow-scoped amendment to the IFRS requirements on a timely basis in this regard. It would be the most cost-efficient for all undertakings when such quick fix would be effective as soon as possible. In this regard we specifically recommend exploring how to pragmatically transform the existing enormous goodwill amounts into the new regime.

Summing up we like to highlight that from our perspective keeping the status quo is not an option anymore, based on the **overwhelming evidence provided by the IASB's own work** so far. The purpose of the post-implementation review is to find out whether the related standard requirements are working as intended. The Board's conclusion was that the impairment only model is not working as intended. Consequently, there is indeed an urgent need to properly address the significant concerns, i.e. the essential deficiencies of the impairment only approach as identified in the IASB's post-implementation review on IFRS 3. The reintroduction of goodwill amortisation is necessary to "**maintain the integrity and reputation of financial reporting**" (par. 3.88 (a) (ii)). Finally, we believe that only after the reintroduction of the goodwill amortisation any further consideration to the proposed relaxations of the annual impairment test could be credibly given, without compromising the robustness of the IFRS financial statements.

You will find our detailed responses to the specific questions in the Discussion Paper in the annex to this letter. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

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Annex

Section 1 – Introduction
Question 1 – Objective of the Goodwill and Impairment research project

We **disagree** with the Board's tentative conclusion that the proposals in the DP as a package are meeting the objective of the Board's research project. From our perspective it is problematic that the IASB focuses indeed in the DP primarily on additional disclosures (par. 1.7) while the concerns related to the goodwill measurement remain effectively not addressed though described. And it is our perception that this reshaping of the discussion's set up occurred only in the late stages of the research project once the Board tightly decided to support the impairment only approach as the preferred approach for the purpose of the public consultation.

It is our perception that there was an essential shift in the priorities of the IASB in the last stages of the process before the DP was released and the discussion process was still not really finalized at the Board's level. Over many sessions the Board discussed how to improve respective how to **fix the goodwill accounting issue**. Different approaches were at the table and the conclusion was that the current accounting regime cannot be improved at a reasonable cost. In fact, the word 'regime" does not really reflect the matter of fact that the current accounting practice for goodwill acquired is a failed one. The current approach does not provide the necessary discipline to be in line with the spirit of the word 'regime'.

The IASB explored in every detail that there is an issue with the **shielding effect** and that there might be an implementation/audit/enforcement issue as the **existing inflated carrying amounts of goodwill** are demonstrating, specifically in cases in which the goodwill in total is higher than the equity number presented in the balance sheet. It has been the GDV's key concern for years in the meantime, specifically from **financial stability perspective** when it becomes apparent that large write-offs are suddenly triggered creating **pro-cyclical effects**. And what are the IASB's recommendations in the DP to approach and to fix the issue? After the Board's close vote in favor of the impairment only approach as a preference for the DP the change in the IASB's communication happened. And more obligatory disclosures should ensure that the weakness of the current accounting is properly understood. Is the IASB not able to get right the goodwill accounting? We strongly believe that the IASB should undertake further targeted efforts as it is overdue to address the goodwill accounting issue.

The disclosure focused approach is also not in line with the spirit of the par. 18 of IAS 1 *Presentation of Financial Statements* that **disclosures cannot replace proper accounting**. We believe that the IASB should have deliberated the issue longer to overcome the close vote outcome and the unsatisfactory situation. And there are approaches on the table the IASB did not discuss explicitly so far. One of them is an **accounting policy choice** at a reporting entity level as a pragmatic solution to overcome the fundamental diversity in stakeholders' views. In this context we back the respective compromise position expressed by Insurance Europe in its joint comment letter with European Insurance CFO Forum. We believe however that already after some few years finally the **goodwill amortisation would be the preferred approach in the market** because of the disciplinary impact it has on the management as described later on in this comment letter (Section 3) when highlighting the significant conceptual deficiencies of the impairment only approach in some more detail.

Overall, after the post-implementation review on IFRS 3 was conducted in 2013 and 2014 it is time to **address the primary issue of concern** which is the goodwill treatment in financial statements under IASB's responsibility. Disclosures are only the subsequent step in this case because of the evidence achieved by the IASB in its own intensive analysis of the issue: The impairment (only) model is not working as intended and this evidence cannot be neglected or addressed via a package of additional disclosures in combination with additional relaxations of the test design!

Section 2 – Improving disclosures about acquisitions
Questions 2 – 5.

Question 2 – Rationale for and subsequent performance of an acquisition.
Question 3 – Disclosure objectives
Question 4 – Information about synergies
Question 5 – Pro forma information

While we continue to have the strong view that it has remained indispensable to abolish the impairment only approach in IAS 36, we like to make following comment to avoid any potential misunderstanding: The German insurers do not disagree with some more disclosure requirements if the case can be made that they are currently really missing and indispensable for proper understanding of the financial statements by users. And the cost-benefit relationship must be evaluated however carefully likewise. But we don't believe it was the primary focus of the IFRS 3 PIR-related discussions. In any case, we would generally support the **management approach** to be the preferred one when setting up the disclosure requirements in the further stage of the project (par. 2.15). The commercial sensitivity clause is nevertheless also important to be included (par. 2.27-2.28), in line with the similar clause in IAS 37.92 and against the tentative Board's view that it "*is not a sufficient reason to prevent disclosure of information that investors need*".

Regarding the tentatively proposed disclosures in the DP about the management objectives for an acquisition and expected synergies we like to observe the following:

- It is generally understandable that investors are interested whether the management's objectives for an acquisition are being met in subsequent reporting periods. Specifically, as the original management objectives used to be communicated as part of the legally required capital market communication ('ad hoc disclosures') in a timely manner.
- Nevertheless, there is an important element which is missing in the DP's analysis from our perception. It is the matter of fact that the better the integration process progresses, the more difficult it gets to isolate the incremental effects of the M&A transaction for the disclosure purpose only.
- Also, it is matter of fact, that the objectives of the management used to be to lead the whole organisation to a success. And an essential part is to raise the efficiencies and synergies out of every M&A transaction as quick as possible. Hence, **the better the management performs the more difficult it would be for the entities to provide the suggested disclosures in the notes** to the annual statement.

- And it does not mean that the individual transactions are not monitored. They are, but often on an integrated basis only. Hence, it would not seem to be appropriate to introduce a mandatory disclosure requirement that a reporting entity is not monitoring acquisitions (as suggested in par. 2.16 (e) and par. 2.20) while in reality it does but in a way which is aligned with its business approach and its organisational strategy (par. 2.23, par. 2.26).
- Therefore, we suggest to carefully reconsider the specific disclosure proposals (including the one suggested in par. 2.44) from the cost-benefit perspective in the next steps of the project considering the comments made above.

However, as a more general comment, we would **not favor additional disclosures** (par. 2.45 (b) (i) till (v)) **being required on top of the volume of existing disclosure requirements in IFRS 3**. We rather recommend a comprehensive thorough review of all existing disclosure requirements to verify if they are all still necessary, effective and whether really used by users of financial statements. Sometimes less disclosure might be more effective and objective-based disclosures requirements based on reporting entities' discretion might better serve users' needs. It applies specifically when "*the carrying amount of acquired goodwill does not necessarily depict how much of the originally expected benefits from the acquisition still remain*" (par. 2.6 (b), (ii)) and when even an "*impairment loss may not indicate that an acquisition has failed*" (par. 2.6 (b) (iii)). A comprehensive review of the existing disclosure requirements in IFRS 3 might also specifically benefit from the experience with the ongoing IASB's maintenance project "Disclosure Initiative – Targeted-Standards-level Review of Disclosures" (as mentioned in par. 2.55) for which an Exposure Draft is expected for Q1 2021 and which covers the standards IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. Hence, we appreciate the related explicit acknowledgements in par. 2.56 and par. 2.88 that any such suggested review has not taken place so far.

Regarding the **pro forma information** we would support and approach incorporating the advantages described in par. 2.85 and hence disagree with the tentative Board's conclusion in Question 5. Disclosures in financial statements should be based indeed on actual rather hypothetical information. It would eliminate the need for any additional specific guidance as otherwise envisaged in par. 2.87 as a tentative way forward in the next step of the project. Finally, we recommend postponing any changes or additions to par. B64(q) of IFRS 3 until the proposals exposed for comments in the Exposure Draft *General Presentation and Disclosures* are finalised.

Section 3 – Goodwill impairment and amortisation
Questions 6 – 8.

Question 6 – Can the impairment test be made more effective at a reasonable cost? ***No****!*

Although it was well known by professionals before and from the beginning that "*under the impairment model in IAS 36 the headroom absorbs the reduction in the recoverable amount*" (par. 3.41), we greatly appreciate that the IASB included in the DP the description of the **headroom approach** with all the related details specifically related to the **headroom's shielding effect** (par. 3.31 – 3.52). It was an appreciated process and serious attempt to explore and address the concerns regarding the impairment only approach, specifically the 'too little, too late'- issue. The DPs strength is indeed that it is providing the very valuable documentation of the transparent and honest analytical process the IASB went through and of the underlying related rationale attached to it.

From our perspective the IASB's preceding deep going analysis of the functionality of the **impairment only approach** provided an instructive evidence that it is **defective** and the losses on goodwill acquired are recognised far too late if any at all. The DP acknowledges that impairment losses on acquired goodwill can only be recognised once the previously existed headroom is reduced to zero (par. 3.35)! And we agree with the Board's conclusion that it **cannot be improved at a reasonable cost** (par. IN28). We strongly back the outcome of the intensive headroom related analysis in this regard, i.e. the rationale to give up this route (par. 3.51). In particular, the headroom approach would only reduce but not necessarily eliminate fully the shielding caused by headroom (par. 3.42). And additionally, it would require a specification how the companies would need to allocate the reduction in total goodwill (par. 3.43), being a sum of the both acquired goodwill and the unrecognised headroom at the acquisition date. It would be a further arbitrary decision anyway which **would not necessarily lead to a faithful representation** of the performance of the underlying acquisition in all cases (par. 3.45) but it would introduce further subjectivity (par. 3.46).

*Indeed, also the '****goodwill accretion approach****' developed in some recent past at EFRAG level was another approach which was conceptually interesting to be explored but it failed to successfully pass the consideration whether and how it could work in practice.[1] The idea was to accrete annually the carrying amount of the goodwill and to add it to the carrying amount of*

[1] EFRAG, Goodwill impairment test: Can it be improved?, EFRAG Discussion Paper, June 2017 (link).

the relevant CGU or to deduct it from the recoverable amount of the CGU to increase the 'chance' of an impairment charge. But this idea of a kind of an indirect amortisation did not receive a lot of traction by stakeholders and was not further followed up.

Question 7 – Should the amortisation of goodwill be reintroduced? ***Yes!***

We would like to share our frustration we perceive when there is an explicit acknowledgment in the DP that the impairment only model is not providing any information whether the acquisition was a successful one (par. 2.6 (b) (i) and (iii)), but there is no subsequent suggestion how to address this issue directly. The perceived outcome is that the DP tries to justify and 'safe' the impairment only model via the attribution of the confirmatory signal to it. Nevertheless, the confirmatory value has the same weak because mixed nature because of the shielding effect.

In this regard we disagree with the Board's view in the DP that if estimates of cash flows are too optimistic, that this is then best addressed by auditors and regulators and not by changing IFRS standards (par. 3.29). This conclusion is inconsistent with the recommendation to introduce additional disclosure requirements to 'heal' the issue (par. 3.30). And we disagree with the assessment that some stakeholders might have "unrealistic expectations of what the impairment test can do" (par. 3.12). Our rationale is as follows:

- The IASB has the responsibility to establish robust financial reporting standards which must be auditable and enforceable. Specifically, in context of the need to make estimates of future cash flows it is indispensable to carefully evaluate upfront whether it might cause audit and/enforcement issues and whether alternative accounting approaches or conventions are available and equivalently suitable.
- We don't think that it is expected too much when we argue in favour of goodwill carrying amounts presented on the face of the balance sheet being robust, not inflated and representing more than a "hope" that the *best case*-forecast will materialize.
- In case of the goodwill accounting there is an additional dimension of the issue which has been acknowledged by the IASB as well in the DP: the impairment only model does <u>not</u> measure goodwill directly (par. IN27). What is tested is the recoverability of the carrying amount of the CGU at large and only the identified difference is allocated to goodwill if any. Hence, in an honest analysis it must be concluded that the acquired goodwill is currently <u>not</u> tested for impairment at all as long the shielding problem is not addressed.
- In addition, while trying to transfer the responsibility from the standard setting level to the audit and enforcement level (par. IN26), the IASB suggests in the DP at the same time an **indictor-only approach** which

might trigger even further issues in this regard. The suggested relief regarding the annual impairment testing will cause similar discussions with auditors and enforces whether the triggering events are strong enough or not.

For all these reasons we urge the Board to address the "too late, too little"-issue regarding the goodwill accounting without any further undue delay.

The most pragmatic way as a proper alternative is to **re-introduce goodwill amortisation**, being a **direct measure**, creating the necessary level of **discipline** and taking the pressure off the annual impairment test which cannot be otherwise addressed at reasonable costs. And the amortisation model as a convention would perfectly correspond with the specific nature of the goodwill position being a **residual value** out of the PPA at the date of acquisition. At the same time, we are aligned with the IASB in its disagreement with any componentisation approach aiming to identify what the goodwill as the residual value is composed of.

The goodwill amortisation is conceptually better suitable to safeguard a **proper profit pattern after a business combination**. There is a need to attribute costs of investments to the related additional revenues recognised as an outcome of the acquisition in the profit or loss of the consolidated entity (par. 3.64). When the **amortisation charges** are **not included on an ongoing basis within the profit or loss account** it creates an accounting incentive for M&A activities, potentially with significant overpayments. When the amortisation expense is included on a systematic basis in the income statement, it would hold management to account (par. 3.61) and it would increase the related **discipline** in the step before the decision on the acquisition is ultimately taken. The main reason is that most variable management compensations used to be earnings-based in practice.

Regarding the classic argument against the goodwill amortisation, i.e. the asserted difficulties with the estimation of useful life (par. 3.70, par. 3.72, par. 3.80, par. 3.83, par. 3.90. par. 3.96), we like to observe the following:

It is an established procedure in accounting for all other items with useful life that justifiable and auditable assumptions must be made. In addition, one of the suggested disclosures in the DP (Question 4) refers to the Board's preliminary view that IFRS 3 should require a company to disclose in the year an acquisition occurs "***when the synergies are expected to be realised***" (par. 2.91 (a) (ii)). Does it mean that the different elements of the residual item out of the PPA, i.e. of the goodwill should be separated out (only) for the purpose of providing this specific disclosures with their useful lives and the rest is the "real" residual, while the synergies create a "true" or "core" goodwill? While we back the IASB's conclusion in par. 3.106, it appears to be an internal inconsistency in the DP when the

goodwill amortisation method is <u>not</u> preferred because of the useful life argument and at the same time at the disclosure level an assessment of the 'realisation period' for synergies is assumed to be achievable. Overall, if the proposed disclosure is assessed to be as a feasible one, it is only logical to assume that the useful life if goodwill can be estimated reliable likewise (par. 3.65, par. 3.97-3.98).

Moreover, and differently to the view expressed in par. 3.83, we believe that it is obviously the case that the total costs of impairment testing can be reduced significantly for prepares if the goodwill amortisation will be reintroduced. <u>Firstly</u>, it will target the measurement of the acquired goodwill directly und hence reduce the carrying amount systematically, in line with the assumed amortisation pattern, without any need for exercising of further discretion at company's level in this regard. <u>Secondly</u>, it will take the audit and enforcement pressure off the impairment test, which will make it easier and less costly to apply. <u>Thirdly</u>, only the amortisation regime provides the necessary discipline which will create the reliable basis to provide some relaxation and simplifications of the impairment testing as proposed in the DP. We wouldn't support any changes regarding the current requirements for an impairment test being conducted at least annually, should the impairment only model remain in place.

Finally, just to remind again the inherent **conceptual inconsistency in the current accounting model**: The impairment only approach leads effectively to a continuous recognition of the internally generated goodwill (par. 3.63 (c)). It is inherently inconsistent with and contrary to the explicit prohibition of it in IAS 38.48. Hence, the **current status quo is** – in opposition to the view portrayed in par. 3.82 – also in this regard **highly problematic** and in practical terms creating an **accounting disadvantage** for entities growing organically, when compared to the entities growing externally. Therefore, we disagree and are disappointed in that regard with the statement in par. 5.24 that it is "*outside the scope of this research project to consider the concerns of investors who want to compare companies that grow by acquisitions more easily with those that grow organically*" which defers the discussion to the upcoming Agenda Consultation. It would have been more proper to include this aspect of the economic reality caused by the accounting rule under consideration into the analysis in this DP.

Question 8 – Should the equity before goodwill be presented? ***Yes!***

We generally support the proposal regarding the presentation of the equity number before "goodwill" on the face of the balance sheet as a free-standing information (par. IN41, par. 3.115). We agree with the Board's rationale that it is useful to make even more transparent once again the unique nature of the goodwill asset as a **residual item** (par. 3.107, par. 3.110). It would be also in line with the prudence principle. Specifically, if the impairment

only model is retained, the IASB should require that the **weaknesses of the current goodwill accounting model by its design** are prominently highlighted by reporting entities.

We like to observe that the current labelling of the residual item as “goodwill” might not fully reflect the true nature of what it intends to faithfully represent. Hence, if the current accounting approach is retained and the immediate write-off is not an option (par. 3.101 – 3.104), a more prominent presentation of the residual item and its impact on equity is essential to be provided.

Section 4 – Simplifying the impairment test
Questions 9 – 11.

Question 9 – Indicator only approach sensible?
Question 10 – Simplifications of value in use calculation?
Question 11 – Additional simplifications?

The IASB suggests in the DP that a company would not be required to perform a quantitative test annually unless there is an indication that impairment may have occurred. From our perspective it is a **counterintuitive** proposal in the context of the IASB's overall approach in the DP and against the original rationale as portrayed in par. 4.9 which we believe still holds.

As a matter of principle, the **indicator only approach** and **further relaxations** of the current requirements are **only reasonable and credible if the goodwill amortisation is reintroduced**. It would not be an advisable approach for the IASB - and not a proper solution for reporting entities using IFRS 3 – to implement a proposal providing only a potential operational relief at the cost of reliability of the information provided because of the related loss of rigor and additional subjectivity attached to it.

In addition, it is **questionable** whether the indicator only approach would really provide a significant **relief for reporting entities** (par. 4.15, par. 4.19 – 4.20), specifically if the list of the indicators in IAS 36.12 would need to be updated/extended (par. 4.34). Additional lengthy discussions with auditors about the interpretation of the strength of the (new) indicators applied (par. 4.13) or new controversies with enforcers afterwards – under the conditions of hindsight on enforcers' side – would arise. Particularly, prepares, auditors and/or regulators would have no basis for a comparison of quantitative impairment tests' results provided in previous reporting periods. Additionally, the expertise necessary to perform the test and the confidence in its results/effectiveness might decline if it is not performed on a regular basis (par. 4.22 (c)).

The DP appropriately highlights that one of the key concerns identified in the PIR on IFRS 3 was that the **impairment only is not working as intended** by the time it was introduced. The underlying assumption that robustly applied impairment model alone would ensure a proper recognition of goodwill consumption over time did not materialise. Hence, there is a need for a major change in the mindset regarding what is the priority of the project. **Additional disclosures cannot replace a need for a robust accounting approach** and suggested **simplification shouldn't lower the level of existing requirements** as long the necessary discipline is not provided via a change in the core regime.

Only a direct robust accounting model/measurement approach – dealing with the shielding effect – can lead to relevant and reliable information being provided to investors and other users of entity's financial statements. Such model can and should be accompanied by targeted disclosure requirements aiming to provide the necessary insight into the entities' specific circumstances.

- A robust impairment model should also be understandable regarding its effectiveness and relevance in context (of a success) of acquisitions activities, and its design should ensure that reliable information is provided to users of entity's financial statements. While the amortisation approach would ensure a matching of the additional revenue earned with the related costs presented aligned in in the income statement, the impairment only model creates a misleading impression of leading to a kind of a distorting unusual expense entry only when impairment charges are recorded.

- A robust impairment model should allow for conclusions regarding the level of comparability of the performance information provided by the same entity over time and across different reporting entities in the same period and over time likewise.

The currently applied impairment only model is providing limited information to investors and other users of financial statements anyway because the goodwill impairments are shielded by the internally generated goodwill. And the information provided in financial statement than is only of a limited confirmatory nature and additionally it is provided with a significant time lag in any case.

Irrespective of the future Board's decisions on the way forward with this project, we tend to agree with the Board's conclusion in par. 4.31 that the **same kind of impairment test** should apply to intangible assets with indefinite useful lives and intangible assets not yet available for use. Any differences in treatment might lead to possibility for an accounting arbitrage which should be avoided.

Based on our firm support for the reintroduction of the **goodwill amortisation regime** we support the suggested **simplifications to the value in use calculation**. Removing the existing restrictions regarding the inclusion of cash flows from future restructuring or enhancement would simplify the impairment calculations without reducing the information usefulness. Hence, the Board's proposal is suitable to provide an essential cost relief for reporting entities as it would better align the impairment testing requirements with the management approach applied for internal purposes. As the reasonable and supportable cash flow forecasts (par. 4.41 (a)) would be based on the most recent financial budgets as approved by the management, the

suggested relief would make the impairment test in fact also easier to audit and enforce (as observed in par. 4.38 (d)). Aligned with the tentative Board's conclusion in par. 4.42 we also don't believe that additional guidelines would be necessary.

We support the proposal to remove the explicit requirement to use pre-tax cash flows and pre-tax discount rates in estimating value in use (par. 4.53). It will provide for the conceptual consistency with the approach followed in IFRS 13 *Fair Value Measurement* as highlighted in par. 4.48 (d).

Finally, we back the Board's decision not to develop the simplifications summarised in par. 4.55. Specifically, we would be very concerned about the intention to test the acquired goodwill at even a higher level as currently required. It would significantly amplify the impact of shielding and indeed further delay the recognition of impairment losses as appropriately observed in par. 4.56 (c).

Section 5 – Intangible assets
Question 12 – Intangible assets

We don't support changes to the current requirements in this area *if* the impairment only approach is going to be retained as is. On this basis we agree with the Board's preliminary view that it should make no changes (par. 5.2, par. 5.28).

In the case of goodwill amortisation being reintroduced, it could be however a reasonable and less costly approach to allow for some (re-)integration of the acquired intangible assets into the residual, considering their useful lives' characteristics.

Nevertheless, considering the growing importance of intangible assets in the economy it would be indeed a preferable approach to discuss this issue in a broader context. We like to note that EFRAG is working intensively on the project "Better Information on Intangibles" with the aim among others to "*provide suggestions on how information on creating, maintaining and/or improving value can be provided in financial reports in a manner that is useful for decisions on providing resources to the entity*"[2]. We believe that it might be useful to consider the outcome of this work in a separate IASB's project as suggested in par. 5.24. Otherwise there would be a risk of following a piecemeal approach which should be avoided.

[2] EFRAG, EFRAG's research on Better Information on Intangibles, Cover Note for EFRAG TEG meeting of 10 November 2020, page 1, paragraph 2 (c) (link).

Section 6 – Other recent publications
Questions 13 – 14.

Question 13 – Convergence with the FASB
Question 14 – Any other comments

We strongly believe that the time has come to **abolish the impairment only model**. It creates a growing concern for the financial stability of the capital markets worldwide. The IASB as a global standard setter shouldn't be a follower. The IASB should be a leader! Therefore, we believe that this time the IASB should make the game-changer decision and reintroduce the goodwill amortisation with a pre-defined maximum amortisation period of 10 years as a default approach. It would reflect the specific nature of the residual item, but extremely important item recognised on the balance sheet as an asset. The IASB must stop the practice of one-sided revenue recognition approach being an incentive for the ongoing M&A activities. The goodwill amortisation regime would provide immediately for the necessary discipline in this regard. When the annual amortisation charges are recognised to balance the additional revenue amounts, the management will be hold accountable for their M&A activities directly in the income statement, i.e. in the most relevant part of the financial statement, on a continuous basis.

We are fully aware of the argument related to the competitive disadvantage when some important jurisdictions would stay with the impairment only model while the IASB would reintroduce an amortisation regime into IFRS. Nevertheless, we believe that the IFRS accounting framework has achieved in the meanwhile a stage of being a mature and a leading one. Therefore, introducing the suggested change in the global leading standard for goodwill treatment would be a real 'game-changer'. Reporting entities which are not following the IFRS would face the expectations on the investors' side to provide similar information on the potential amortisation charge as well to allow for comparability in investors' analysis.

Finally, as a closing comment we like to highlight that a specific attention should be given by the IASB in the next step of the process to the question how to pragmatically approach the transition to the new goodwill accounting regime. This question shouldn't be seen as an unbreachable hurdle to reintroduce the goodwill amortisation.