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IASB Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*

Dear Mr Hoogervorst,

We appreciate the opportunity to respond to the IASB's Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* (herein referred to as the 'DP'). This comment letter summarizes the Allianz Group's position on the amendments proposed in the DP.

We welcome the IASB's ambition to improve disclosures about M&A activities. We agree that the current IFRS accounting regime has its limitations with regard to M&A related disclosures as well as goodwill accounting. However, in our view, the proposed amendments do not solve these problems adequately.

The IASB correctly identifies that the impairment-only approach does not lead to a timely recognition of goodwill impairments. After extensive research, the IASB comes to the conclusion that the current impairment model cannot be improved at reasonable costs. In the DP the IASB therefore proposes to expand pro-forma disclosures about transactions.

While we agree with the Board on the existence of the problem we do not share its view on the possible solution. The Board as well as academic research and practical experience identify major shortcomings in the impairment-only approach, namely shielding and management over-optimism. From our perspective, the consequential problem of recognizing impairments too little too late prevails the impairment-only approach's undoubted conceptual strengths.

Vorsitzender des Aufsichtsrats: Michael Diekmann.
Vorstand: Oliver Bäte, Vorsitzender;
Sergio Balbinot, Jacqueline Hunt, Dr. Christof Mascher, Niran Peiris, Dr. Klaus-Peter Röhler, Iván de la Sota,
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Allianz SE
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In our view, the shortcomings of goodwill accounting shall be addressed directly. We agree with the Board that it is not possible to improve the impairment-only approach at reasonable costs.
We therefore support the reintroduction of goodwill amortization as a pragmatic and at the same time conceptually well-founded solution to the described shortcomings.

We are reluctant about the additional disclosure requirements as described in the DP. Although we believe that additional pro-forma disclosures could help investors to reach a better understanding of M&A activities, this crucially depends on the level of detail and aggregation required in the ultimate amendments. Otherwise we see the risk of a conflict with commercial sensitivity, an information overload and unjustifiable costs for preparers.

The appendix to this letter sets out our view on the specific questions posed in the DP. Many of our answers are interrelated with answers to other questions of the DP.

We hope our feedback is helpful for your future deliberations. Please feel free to contact Dr. Eva Schreiber (eva-maria.schreiber@allianz.com) or us to discuss any matters raised in this letter.

Yours sincerely,

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Question 1

Paragraph 1.7 of the DP summarises the objective of the IASB research project. Paragraph IN9 of the DP summarises the IASB preliminary views. Paragraphs IN50– IN53 of the ED explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views.

The IASB has concluded that this package of preliminary views would, if implemented, meet the objective of the project. Companies would be required to provide investors with more useful information about the businesses those companies acquire. The aim is to help investors to assess performance and more effectively hold management to account for its decisions to acquire those businesses. The IASB is of the view that the benefits of providing that information would exceed the costs of providing it.

a) Do you agree with the IASB's conclusion? Why or why not? If not, what package of decisions would you propose and how would that package meet the project's objective?

b) Do any of your answers depend on answers to other questions? For example, does your answer on relief from a mandatory quantitative impairment test for goodwill depend on whether the IASB reintroduces amortisation of goodwill? Which of your answers depend on other answers and why?

a) We do not agree that the amendments discussed in the Discussion Paper (DP) would solve the identified problems and therefore meet the objectives of the DP.

We appreciate the IASB's ambition to improve disclosures about transactions. We agree that the current regime with regard to i) M&A related disclosures as well as ii) goodwill accounting has its limitations. However, in our view, the proposed amendments do not solve these problems adequately.

As to i), we believe that the disclosure of M&A metrices as a whole as proposed in the DP is too costly in relation to the additional benefits for investors, they would risk to bloat companies disclosures and could contain commercially sensitive information (please see answer to question 2). Most notably, they would not solve the current shortcomings in goodwill accounting.

As to ii), the Board identifies and acknowledges shortcomings in the current goodwill accounting regime and concluded that the impairment test cannot be improved at reasonable costs. We agree to both points. However, we believe that the consequence has to be to reconsider the entire accounting regime regarding the subsequent measurement of goodwill. Against this background, we support the reintroduction of goodwill amortization (please see answer to question 6 and 7).

In our view, two major amendments to the proposed package are necessary to achieve the objectives from this DP. First of all, the additional disclosures should be limited to significant transactions. This way the additional disclosures can enhance investors understanding of significant transactions without overloading the disclosure documents and at bearable costs and risks for the preparer. Second, the amortization of goodwill

should be reintroduced. Combined with guidance on the amortization period, this would solve the problems of shielding and management over-optimism and therefore solve the problem of recognizing impairment losses on goodwill "too little too late".

Tackling the issue of the currently not satisfying goodwill accounting regime in combination with additional disclosures about internal considerations for significant transaction would, in our view, meet the objective of the DP.

b) Yes, many questions are interrelated.

In our view, the disclosure objectives of the DP can only be met when disclosures are focused on significant transactions (questions 2 and 4).

Our answer with regard to the relief from a mandatory quantitative impairment test as well as the recognition of intangibles depends on whether the IASB considers to reintroduce the amortization of goodwill (questions 6, 7, 9 and 12).

Further, we are reluctant about the additional disclosure requirements as described in the DP (question 2). If the Board decides to follow this path anyway, the question through which channel the information should be disclosed depends on how detailed and extensive the disclosure requirements ultimately are. In Germany, information on major business combinations is typically provided in the management commentary which is audited as rigorously as the financial statements. Disclosing the proposed information in the management commentary or at least allowing the possibility of referencing to the management commentary should therefore be considered in order to avoid the duplication of disclosures with regard to business combinations. We understand that the management report is beyond the scope of IFRS. However, we would appreciate the possibility for a reference from the notes to the management report for the respective disclosures under the condition that the respective section of the management report is published together with the notes to the financial statements and subject to the same level of assurance.

Question 2

Paragraphs 2.4–2.44 of the DP discuss the IASB's preliminary view that it should add new disclosure requirements about the subsequent performance of an acquisition.

a) Do you think those disclosure requirements would resolve the issue identified in paragraph 2.4 of the DP—investors' need for better information on the subsequent performance of an acquisition? Why or why not?
b) Do you agree with the disclosure proposals set out in (i)–(vi) below? Why or why not?
    i. A company should be required to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date (see paragraphs 2.8–2.12 of the DP). Paragraph 7 of IFRS 8 Operating Segments discusses the term 'chief operating decision maker'.

ii. A company should be required to disclose information about whether it is meeting those objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives (see paragraphs 2.13–2.40 of the DP), rather than on metrics prescribed by the IASB. iii. If management (CODM) does not monitor an acquisition, the company should be required to disclose that fact and explain why it does not do so. The IASB should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20 of the DP). iv. A company should be required to disclose the information in (ii) for as long as its management (CODM) continues to monitor the acquisition to see whether it is meeting its objectives (see paragraphs 2.41–2.44 of the DP). v. If management (CODM) stops monitoring whether those objectives are being met before the end of the second full year after the year of acquisition, the company should be required to disclose that fact and the reasons why it has done so (see paragraphs 2.41–2.44 of the DP). vi. If management (CODM) changes the metrics it uses to monitor whether the objectives of the acquisition are being met, the company should be required to disclose the new metrics and the reasons for the change (see paragraph 2.21 of the DP). c) Do you agree that the information provided should be based on the information and the acquisitions a company's CODM reviews (see paragraphs 2.33–2.40 of the DP)? Why or why not? Are you concerned that companies may not provide material information about acquisitions to investors if their disclosures are based on what the CODM reviews? Are you concerned that the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions the CODM reviews? d) Could concerns about commercial sensitivity (see paragraphs 2.27–2.28 of the DP) inhibit companies from disclosing information about management's (CODM's) objectives for an acquisition and about the metrics used to monitor whether those objectives are being met? Why or why not? Could commercial sensitivity be a valid reason for companies not to disclose some of that information when investors need it? Why or why not? e) Paragraphs 2.29–2.32 explain the IASB's view that the information setting out management's (CODM's) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information. Instead, the IASB considers the information would reflect management's (CODM's) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company's ability to disclose this information? What are those constraints and what effect could they have?
a) We do not think the proposed disclosure requirements would resolve investors' need for better information on the subsequent performance of an acquisitions. First of all, we did not receive feedback from our investors that they are dissatisfied with our disclosures about M&A activities. The only cases where investors ask for additional information about certain M&A activities, e.g. during the annual shareholders meeting, are when the transaction is significant in terms of transaction volume compared to our total assets or annual revenue.

We acknowledge investors' need for additional information on significant transaction. Therefore, we support the Boards approach to improve disclosure about these transactions. However, besides significant transactions in terms of transaction size, we also perform a quite large number of smaller M&A activities every year. These transactions are nevertheless monitored on CODM level, even though some of them in an aggregated form depending on the transaction details. We do not see additional informational benefits for our investors in bloating our disclosures with a large number of details about insignificant transactions. We recommend to focus on M&A activities that are monitored on CODM level but also comprise a certain significance. This could be, for example, a specific significance threshold (e.g. like a transaction volume of >10% of annual revenues). We acknowledge, however, that defining such a concrete threshold for IFRS preparers in different industries, jurisdictions and of different size, could be difficult. But even if the Boards does not follow the suggestion to incorporate a concrete threshold, we believe that considering a significance level is crucial. Alternatively, a principle-based approach which incorporates the significance considerations in the disclosure requirements could also be a solution.

Further, our M&A strategy usually strives for a full integration of acquired companies. The disclosure of the (subsequent) performance of separate acquisitions could therefore draw an inaccurate or incomplete picture of the performance of our overall M&A strategy. Dismantling single acquisitions out of an already integrated business would be artificial and might lead to arbitrary results. We recommend to amend the disclosure requirements in terms of requiring information about the combined business rather than the separate acquisition or allowing an accounting choice for preparers to adapt to the respective transaction. This would enable preparers to disclose information about transactions in the most information-beneficial way for investors.

Overall, we acknowledge investors' need for additional information on significant transactions, but we do not agree with the proposed requirements as presented in the DP. In our view, such requirements would lead to an information overload which does not justify the costs and other disadvantages for preparers compared to the limited additional benefit for investors (please also note our answer to question 3). We support requirements for disclosures about information on transactions which are monitored on CODM level only when these transactions are considered significant.

b) Our answers in this section should be read in connection with the feedback provided in the previous section a):

(i) We do not fully agree. As explained above, we support requirements for the disclosure of information about the strategic rationale and CODM's objectives for an acquisition as at the acquisition date only when the respective the transaction is significant.

(ii) We do not fully agree. Providing disclosures on all transactions monitored by the CODM would lead to an information overload in our view. We recommend the incorporation of a specific significance threshold. We agree that the IASB should not prescribe specific metrices.

(iii) As outlined above, for significant transactions, we agree. We also agree that the IASB should not require a company to disclose any metrics in case a transaction is not monitored internally. This would

trigger the development of specific metrices for disclosure purposes only.

Please also note our answer to question 2d) about commercial sensitivity.

(iv) On a single acquisition basis, we do not agree as many of our business combinations are carried out with a perspective to a timely and full integration into existing operations. For a combined business case and under the assumption that the respective transaction is significant, we agree. Please also note our answer to question 2d) about commercial sensitivity.

(v) On a single acquisition basis, we do not agree. On a combined basis and under the assumption that the respective transaction is significant, we agree. Please also note our answer to question 2d) about commercial sensitivity.

(vi) On a single acquisition basis, we do not agree. On a combined basis and under the assumption that the respective transaction is significant, we agree. Please also note our answer to question 2d) about commercial sensitivity.

c) As outlined above, we are concerned that information about every transaction which is monitored on CODM level would not provide material information, but rather an information overload for investors without additional benefits for investors and inadequate costs and disadvantages for preparers. Choosing a monitoring level even below the CODM would intensify this problem. We support disclosures about transactions which are monitored on CODM level and fulfill certain significance requirements.

d) Yes, commercial sensitivity could be an issue. Especially information about transaction objectives could reveal internal details on strategies. Additionally, also information about expected synergies might be critical from a commercial sensitivity perspective. This is especially true if the requirements target very detailed information for every transaction monitored on CODM level. Whether the proposed disclosures contain commercially sensitive information will ultimately depend on the aggregation level and level of details required. We acknowledge, however, investors' need for additional information on significant acquisitions. In our view, the risk of commercial sensitivity could be partially mitigated by incorporating a significance threshold for the disclosures.

Question 3

Paragraphs 2.53–2.60 of the DP explain the IASB's preliminary view that it should develop, in addition to proposed new disclosure requirements, proposals to add disclosure objectives to provide information to help investors to understand:

- the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business; and
- the extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition.

Do you agree with the IASB's preliminary view? Why or why not?

First of all, in our view, the Board should reevaluate the disclosure requirements in IFRS 3 from a "quality over quantity"-perspective. Please note our answer to question 5a) in this regard as well. The introduction of other, more useful additional disclosures should go hand in hand with the reduction of less demanded and more costly disclosures.

We support amending the disclosure objectives as outlined in paragraph 2.56 of the DP when combined with a focus on significant transactions as outlined above. We believe that this could mitigate the threat of "boilerplate" disclosures.

As to the proposed amendments in paragraph 2.53-2.60, we support the Boards intention to enhance investors understanding of the rationale for significant M&A activities. Please note that we believe the disclosure requirements as summarized in DP 2.6 (strategic rationale, CODM's objectives, CODM's metrices, meeting objectives, expected synergies, financing and pension liabilities, contribution of acquired business) meet the new disclosure objectives only for significant M&A activities (please also see Question 2).

Question 4

Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 of the DP explain the IASB's preliminary view that it should develop proposals:

- to require a company to disclose:
    - a description of the synergies expected from combining the operations of the acquired business with the company's business;
    - when the synergies are expected to be realized;
    - the estimated amount or range of amounts of the synergies; and
    - the expected cost or range of costs to achieve those synergies; and
- to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.

Do you agree with the IASB's preliminary view? Why or why not?

We agree that the board should develop proposals to require preparers to disclose liabilities arising from financing activities and defined benefit pension liabilities that are major classes of liabilities as well as synergies. As to the synergies expected from a transaction, we acknowledge investors interest in this information. We are concerned, however, that depending on the type and details of a transaction, detailed information about expected synergies might be commercially highly sensitive. It is crucial to find the right balance between protecting commercial interests and providing adequate information on the other hand. A sufficiently high aggregation level could help to mitigate the risk of disclosing commercially sensitive information about synergies while meeting investors' information needs. Additional, we see the risk of "boilerplate" disclosures especially for insignificant transactions. Therefore, we agree with the Board's preliminary view to develop proposals as describes in paragraphs 2.62–2.68 and paragraphs 2.69–2.71 of the DP but only for significant transactions meeting a to-be-defined significance threshold.

Question 5

IFRS 3 Business Combinations requires companies to provide, in the year of acquisition, pro forma information that shows the revenue and profit or loss of the combined business for the current

reporting period as though the acquisition date had been at the beginning of the annual reporting period.

Paragraphs 2.82–2.87 of the DP explain the IASB's preliminary view that it should retain the requirement for companies to prepare this pro forma information.

a) Do you agree with the IASB's preliminary view? Why or why not?
b) Should the IASB develop guidance for companies on how to prepare the pro forma information? Why or why not? If not, should the IASB require companies to disclose how they prepared the pro forma information? Why or why not?

IFRS 3 also requires companies to disclose the revenue and profit or loss of the acquired business after the acquisition date, for each acquisition that occurred during the reporting period.

Paragraphs 2.78–2.81 of the DP explain the IASB's preliminary view that it should develop proposals:

- To replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. Operating profit or loss would be defined as in the Exposure Draft General Presentation and Disclosures.
- To add a requirement that companies should disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.

c) Do you agree with the IASB's preliminary view? Why or why not?

a) We do not agree with the IASB's preliminary view. The disclosure requirements of IFRS 3 are extensive, costly and complex while the usefulness of some of the disclosure requirements is questionable. Especially the disclosures about the revenue and profit or loss had the business combination occurred at the beginning of the annual reporting period (IFRS 3.B64(q)(ii)) is very costly to fulfil for preparers. Still these disclosures do not provide useful information for the users of financial statements to a degree that would justify such significant effort and costs.

   Additionally, we also suggest to eliminate the disclosure requirements for acquisition-related costs (IFRS 3.B64(m)) as they are sunk costs and are no longer of relevance for decision making as well as the specific disclosures for business combinations that occurred after the end of the reporting period but before the financial statements are authorized for issue (IFRS 3.B66) due to an overlap with subsequent events disclosures pursuant to IAS 10.

b) Requiring companies to disclose how they prepared the pro forma information would not solve the problem in our view. It would provide investors with some background information, but still we doubt that this would enable investors to deduct a comparable basis for different companies. Given the already extensive costs for preparer, we do not support this proposal.

c) We do agree with the Boards proposal to replace the term 'profit and loss' with the term 'operating profit before acquisition-related transaction and integration costs'.

   We do not agree with the proposal to disclose cash flows from operating activities for all transactions. In line with our view in our answer to question 2, we support the additional disclosure requirements for significant transactions and on a combined business level.

Question 6

As discussed in paragraphs 3.2–3.52 of the DP, the IASB investigated whether it is feasible to make the impairment test for cash-generating units containing goodwill significantly more effective at recognising impairment losses on goodwill on a timely basis than the impairment test set out in IAS 36 Impairment of Assets. The IASB's preliminary view is that this is not feasible.

a) Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost? Why or why not?
b) If you do not agree, how should the IASB change the impairment test? How would those changes make the test significantly more effective? What cost would be required to implement those changes?
c) Paragraph 3.20 of the DP discusses two reasons for the concerns that impairment losses on goodwill are not recognised on a timely basis: estimates that are too optimistic; and shielding. In your view, are these the main reasons for those concerns? Are there other main reasons for those concerns?
d) Should the IASB consider any other aspects of IAS 36 in this project as a result of concerns raised in the Post-implementation Review (PIR) of IFRS 3?

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a) We agree with the boards analysis that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at reasonable costs. In our view, shielding is the main reason for the impairment test failing to recognize impairment losses on goodwill in a timely manner. At the point in time when an economic situation materializes that could trigger an impairment of goodwill, goodwill will often be "shielded" by the headroom of the CGU. A large-enough headroom and the corresponding shielding effect therefore makes the timely recognition of goodwill impairment technically impossible. Shielding, however, is an effect that is inherent to the current goodwill impairment regime as goodwill does not generate cashflows from its own and can be measured only in combination with other assets.

   We acknowledge the Board's approach to address the problem of shielding by analyzing the "headroom approach", but we agree that this approach comprises other weaknesses like additionally subjectivity and especially additional complexity and costs for preparers. We conclude that the effect of shielding within the impairment test for cash-generating units containing goodwill cannot be reduced at reasonable costs. As long as shielding persists, a timely recognition of goodwill impairments is technically not possible as elaborated above. We therefore agree with the Boards analyses that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost.
b) Not applicable.
c) In our view, shielding is the main reason. Shielding is an effect that occurs technically when applying the current accounting rules for goodwill accounting. We acknowledge the Board's approach to address the problem of shielding by analyzing the "headroom approach", but we agree that this approach comprises other weaknesses like additionally subjectivity and especially additional complexity and costs for preparers. We conclude that the effect of shielding within the impairment test for cash-generating units containing goodwill cannot be reduced at reasonable costs.

As to management over-optimism, we can only make a reliable statement about our own management assumptions. Allianz never chooses an overoptimistic approach about goodwill accounting as it is our firm believe that this is what our stakeholders expect from us. Therefore we do not believe that management over-optimism is a major reason for the impairment test not meeting the objective of recognizing impairment losses on goodwill on a timely basis in our case. We acknowledge, however, that academic research identified management over-optimism as a problem. The Board also acknowledges in DP paragraph 3.22ff that the risk of over-optimism cannot be avoided, given the estimates required in the current impairment test. The Board concludes that it is the auditors and regulators responsibility to prevent effects of over-optimism.

We do not follow this line of argumentation. As the Board does acknowledge that the goodwill impairment test showed significant weaknesses , because of over-optimism and because of shielding, the logical consequence is to adjust the test or, as this is obviously not feasible at reasonable costs, to adjust the entire accounting regime for the measurement of goodwill. In our view, it is not in the responsibility of auditors or regulators (or preparers) to compensate for insufficiencies in accounting standards. We see it in the responsibility of the Board to establish robust financial reporting standards which are auditable and enforceable.

Both effects, shielding as well as management over-optimism, would be mitigated by the reintroduction of goodwill amortization. It was argued before that management over-optimism would still be a problem in case goodwill amortization should be reintroduced because management would have discretion regarding the amortization period. We believe, however, that it is way easier to develop additional guidance on the determination of the amortization period than it is to find ways to mitigate the effect of management over-optimism on cash flow forecasts. As to the determination of the amortization period, we recommend providing an upper and a lower limit and an additional reference amortization period per industry. For the insurance industry, we would consider a reference amortization period of 10 years adequate based on our professional judgment in which timeframe acquired goodwill is typically consumed.

d) No. In our view, the main concerns would be addressed with the reintroduction of goodwill amortization. .

Question 7

Paragraphs 3.86–3.94 of the DP summarise the reasons for the IASB's preliminary view that it should not reintroduce amortisation of goodwill and instead should retain the impairment-only model for the subsequent accounting for goodwill.

a) Do you agree that the IASB should not reintroduce amortisation of goodwill? Why or why not? (If the IASB were to reintroduce amortisation, companies would still need to test whether goodwill is impaired.)
b) Has your view on amortisation of goodwill changed since 2004? What new evidence or arguments have emerged since 2004 to make you change your view, or to confirm the view you already had?
c) Would reintroducing amortisation resolve the main reasons for the concerns that companies do not recognise impairment losses on goodwill on a timely basis (see Question 6(c))? Why or why not?

d) Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not?

e) If amortisation were to be reintroduced, do you think companies would adjust or create new management performance measures to add back the amortisation expense? (Management performance measures are defined in the Exposure Draft General Presentation and Disclosures.) Why or why not? Under the impairment-only model, are companies adding back impairment losses in their management performance measures? Why or why not?

f) If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?

a) We do not agree with the IASB on this point as we would welcome the reintroduction of goodwill amortization. In our view, goodwill comprises of wasting components. Therefore, the goodwill recognized as the consequence of a business combination should be gradually reduced over time, i.e. amortized.

For us, the main components of goodwill from M&A activities are usually synergies and positive effects from a gain in market share. Synergies are merged in the acquirers business, therefore the associated value does not persist. A gain in market share can be either a better market position in an existing market or access to a new market. However, the positive effects from a gain in market share would not persist if we did not perform maintenance investments. The fact that the value of the asset goodwill decreases without maintenance investments is a strong point supporting the view that goodwill is a wasting asset. Amortization would reflect this transformation of value in a more authentic manner.

b) There are valid and convincing arguments for both concepts, impairment-only as well as amortization. Our assessment of the subsequent measurement of goodwill is not driven by fundamentally new arguments. We firmly believe that, from a conceptual perspective, all advantages and disadvantages were intensively discussed over the last decades.

However, when we look at the last years since 2004 as a kind of "field test" for the impairment-only approach, practical experience indicates that the problem of recognizing impairments too little too late prevails its undoubted conceptual strengths. Even if the current accounting regime would recognize impairments in a more timely manner it would have a strong pro-cyclical effect, not only for individual companies but also for the economy as a whole.

Therefore, we believe that the reintroduction of goodwill amortization is a pragmatic and at the same time conceptually well-founded solution. Amortization would significantly mitigate the "too-little-too-late" problem as well as the accounting risk that is inherent to goodwill impairments by gradually reducing the impairment potential. Also, the effects of shielding and management over-optimism would be addressed.

We agree with the Board that the impairment test itself cannot be improved at reasonable costs (please also see question 6). Our conclusion is therefore to support the reintroduction of goodwill amortization.

c) Yes, it would. We acknowledge that valuable arguments exists for both methods, impairment-only as well as amortization, and we also acknowledge that both methods have shortcomings. However, we are in favor of goodwill amortization as we believe that possible effects from its shortcomings are by far less severe than those of the impairment-

only approach, from a preparer's view but also from an economic view. The impairment-only approach comprises a lack of predictability over goodwill and the uncertainty in the timing of any impairments, coupled with the pro-cyclicality effect of an impairment. Those two points as well as the effect of a "too little too late" recognition of goodwill would be mitigated by amortization. Amortization is a direct measure for the recognition and subsequent measurement of goodwill, without the diluting effect of headroom. Further, also the effect of management over-optimism is mitigated. It was argued before that management over-optimism will still be a problem when goodwill amortization is reintroduced because management would have discretion regarding the amortization period. We believe, however, that it is way easier to develop additional guidance on the determination of the amortization period than it is to find ways to mitigate the effect of management over-optimism on cash flow forecasts.

Amortization would reduce the effects of shielding and management over-optimism, likely reduce the magnitude of any necessary impairments and could therefore take significant pressure off the impairment test itself.

d) Yes, in our view, acquired goodwill is distinct from goodwill subsequently generated internally in the same cash-generating units. We see acquired goodwill as a separate, wasting asset. This view is supported by the fact that maintenance expenditures are necessary to sustain the economic advantages packed in acquired goodwill, for example to sustain the market share obtained in the course of an acquisition. Therefore, from a conceptual perspective, acquired goodwill and internally generated goodwill are distinct. We acknowledge, however, that it is in practice difficult to measure acquired goodwill distinctively from internally generated goodwill, especially when the respective acquisition was performed rather far in the past. For us, this is an additional point for the reintroduction of amortization of acquired goodwill.

e) We would expect that companies will adjust or extend their management performance measures to add back the amortization expense. However, this would not lead to a different management performance presentation as, in our perception, companies are also adding back impairment losses in their management performance measures under the current impairment-only approach.

f) In our view, providing an upper and a lower limit would be appropriate in order to ensure comparability within and between entities. Additionally, we support a reference amortization period within these limits, potentially per industry. For the insurance industry, we would consider a reference amortization period of 10 years adequate based on our professional judgment in which timeframe acquired goodwill is typically consumed.

Question 8

Paragraphs 3.107–3.114 of the DP explain the IASB's preliminary view that it should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. The IASB would be likely to require companies to present this amount as a free-standing item, not as a subtotal within the structure of the balance sheet (see the Appendix to this Discussion Paper).

a) Should the IASB develop such a proposal? Why or why not?
b) Do you have any comments on how a company should present such an amount?

We support additional transparency about goodwill. However, we think the proposal about the separate presentation of goodwill as described in the Exposure Draft "General Presentation and Disclosures" is sufficient and conceptually more convincing. Furthermore, presenting the amount of total equity excluding goodwill might raise the question whether the IASB considers goodwill as an asset at all as there is no such presentation requirement for any other asset. In addition, this information can be easily calculated by any interested stakeholder without any effort.
Question 9 Paragraphs 4.32–4.34 of the DP summarise the IASB's preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. A quantitative impairment test would not be required unless there is an indication of impairment. The same proposal would also be developed for intangible assets with indefinite useful lives and intangible assets not yet available for use. a) Should the IASB develop such proposals? Why or why not? b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21 of the DP)? If so, please provide examples of the nature and extent of any cost reduction. If the proposals would not reduce costs significantly, please explain why not. c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23 of the DP)? Why or why not?
Our answer to this questions relies heavily on the question whether the Board reconsiders its preliminary view on goodwill amortization (question 6 and 7). Amortization would gradually reduce the possible impairment magnitude and therefore the importance of an annual quantitative test. In our view, the costs and complexity of an annual yearly mandatory quantitative impairment test would be questionable. However, if the Board should decide not to reintroduce goodwill amortization, we do not support an indicator-only approach. Removing the requirement to perform an annual quantitative impairment test would presumably reduce costs for preparers and we very much acknowledge the Board approaching the issue of cost-intensity for preparers. However, companies are already obliged to review and assess whether there are indicators for impairments, additionally to the current mandatory quantitative test. Therefore the effect of cost reductions is unclear and depends on the ultimate details of a possible revised standard. Removing the requirement for the quantitative test might lead to the risk that necessary impairments are not identified in a timely manner. For companies with less sophisticated processes, this simplification could risk to contradict a main objective of the DP, which is tackling the "too-little-too-late" problem. In summary, we support this simplification only in case goodwill amortization is reintroduced.
Question 10 The IASB's preliminary view is that it should develop proposals: • to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use—cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance (see paragraphs 4.35–4.42 of the DP); and

- to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use (see paragraphs 4.46–4.52 of the DP).

The IASB expects that these changes would reduce the cost and complexity of impairment tests and provide more useful and understandable information.

a) Should the IASB develop such proposals? Why or why not?
b) Should the IASB propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows that are the subject of this question? Why or why not? If so, please describe how this should be done and state whether this should apply to all cash flows included in estimates of value in use, and why.

We support the simplifications proposed. In our view, removing these restrictions would simplify the impairment calculations without reducing the information usefulness.

We do not see the need for additional discipline as we expect that all assumptions about future plans are adequately substantiated. This should be the case for any significant assumption used when applying IAS 36.

Question 11

Paragraph 4.56 of the DP summarises the IASB's preliminary view that it should not further simplify the impairment test.

a) Should the IASB develop any of the simplifications summarised in paragraph 4.55? If so, which simplifications and why? If not, why not?
b) Can you suggest other ways of reducing the cost and complexity of performing the impairment test for goodwill, without making the information provided less useful to investors?

We support additional guidance on identifying CGUs and allocation of goodwill to CGUs (paragraph 4.55 (d) of the DP). This could support at least some companies who are facing problems with identifying CGUs and would help to enhance the comparability across entities. Besides that, we do not see further significant improvements of goodwill accounting as feasible (besides the reintroduction of amortization, please see question 6, 7 and 9).

Question 12

Paragraphs 5.4–5.27 of the DP explain the IASB's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill.

Do you agree that the IASB should not develop such a proposal? Why or why not?

a) If you do not agree, which of the approaches discussed in paragraph 5.18 should the IASB pursue, and why? Would such a change mean that investors would no longer receive useful information? Why or why not? How would this reduce complexity and reduce costs? Which costs would be reduced?
b) Would your view change if amortisation of goodwill were to be reintroduced? Why or why not?

The answer to this question depends on the question whether the Board reconsiders to reintroduce goodwill amortization (question 6 and 7).

In case the impairment-only approach is retained, we share the Boards preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill. We

acknowledge that the separate recognition of intangible assets provide useful information for investors, especially with regard of the increasing importance of intellectual property. Further, including these assets in goodwill under the impairment-only approach would stretch the "too-little-too-late" problem to these intangibles and therefore contradict the objectives of this DP. The current amortization of intangibles with a definite useful life reflects the economic useful life in an adequate way. In case goodwill amortization is considered, such a proposal is worth to be investigated further in our view. The separate recognition of intangibles is costly and complex and including them in goodwill under an amortization regime could be a pragmatic solution. Therefore, for assets very close to goodwill and with comparable economic useful lifetime (e.g. customer relationships) an inclusion in goodwill would be a significant measurement relief for preparers without significantly less information for investors.
Question 13 IFRS 3 is converged in many respects with US generally accepted accounting principles (US GAAP). For example, in accordance with both IFRS 3 and US GAAP for public companies, companies do not amortise goodwill. Paragraphs 6.2–6.13 of the DP summarise an Invitation to Comment issued by the US Financial Accounting Standards Board (FASB). Do your answers to any of the questions in the DP depend on whether the outcome is consistent with US GAAP as it exists today, or as it may be after the FASB's current work? If so, which answers would change and why?
No.
Question 14 Do you have any other comments on the IASB's preliminary views presented in the DP? Should the IASB consider any other topics in response to the PIR of IFRS 3?
No.