

## **0. Purpose of this memo**

The IASB expects to publish its proposals on the impairment test for goodwill in 2018. EFRAG's Discussion Paper Goodwill impairment test: can it be improved? illustrates a number of suggestions to enhance the application and effectiveness and to reduce the complexity of the goodwill impairment test. EFRAG asks European constituents' views on these suggestions by 31 December 2017.

This memo includes our views on the specific questions raised in the discussion paper.

## **1. QUESTION 1 - HOW AN ENTITY SHOULD ALLOCATE GOODWILL**

In paragraphs 2.3 to 2.22 of Chapter 2 EFRAG discusses additional guidance on the allocation of goodwill to CGU and disclosures on the break-down of goodwill by cash-generating unit.

### **Q1.1 Do you agree with the additional guidance on how an entity should allocate goodwill?**

For our company, the allocation of goodwill to different cash generating units within one legal entity does not make sense due to our integrated bank-insurance model:

- We offer an integrated response to our clients' banking and insurance needs.
- Our organisation is similarly integrated, with most services operating at group level and the group also managed in an integrated style.
- Our integrated model offers our clients the benefit of a comprehensive, one-stop financial service that allows them to choose from a wider, complementary and optimised range of products and services.
- For ourselves, it offers benefits in terms of income and risk diversification, additional sales potential through intensive co-operation between the bank and insurance distribution channels, and significant cost-savings and synergies.

Consequently, our company is not organised following specific business lines (and hence can not allocate goodwill to these), but the operating segments are based on the location of the company's activities, resulting in a geographical segmentation. Therefore, we mostly consider the legal entity in its entirety as a cash generating unit.

Q1.2 Do you have any other suggestions to improve this area of the goodwill impairment test?

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**2. QUESTION 2 - WHEN AN ENTITY SHOULD DETERMINE THE RECOVERABLE AMOUNT**

In paragraphs 2.23 to 2.37 of Chapter 2, EFRAG discusses the introduction of a 'Step Zero' to the impairment test.

Q2.1 Do you agree with the introduction of an initial qualitative assessment?

We fully support the introduction of an initial qualitative assessment. On a yearly basis, an extensive valuation exercise is performed at our company for each subsidiary on which goodwill is booked. From an administrative point of view, this is a time-consuming and hence costly exercise, which also needs to be reviewed by the external auditor.

This test currently needs to be performed obligatory by IFRS, even if we (and the external auditor) are convinced beforehand that there is no indication whatsoever on an impairment given the substantial margin of the fair value (based on a dividend discount model) above carrying amount from the test of previous year. Hence, the valuation on those subsidiaries is only performed for documentation purposes and adds no value.

If the IASB would provide criteria for assessing a 'remote' likelihood on impairment, a company could make an objective qualitative assessment based on these criteria, without having to perform a full valuation, which would simplify the process.

Q2.2 Do you have any other suggestions to improve this area of the goodwill impairment test?

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**3. QUESTION 3 - HOW AN ENTITY SHOULD DETERMINE THE RECOVERABLE AMOUNT**

In paragraphs 2.38 to 2.78 of Chapter 2, EFRAG discusses how an entity determines the recoverable amount.

Q3.1 Do you agree with having a single method for determining the recoverable amount?

We are not in favour of limiting the valuation to one single method for determining the recoverable value.

We consider the Value-In-Use (VIU) as the best method, as it provides the most relevant valuation for our company, taking into account the specific characteristics and strategy of the company involved. From a going concern point of view, the valuation based on a discounted dividend model provides the most objective basis for an impairment.

However, in case the VIU method would indicate a possible impairment, the 'fair value less costs of disposal' method can still be relevant as a benchmark and might indicate that: for example:

- The valuation was performed too conservatively based on too low expected growth rates, other interest expectations, etc.
- The market values such an operation higher due to specific circumstances (e.g. market entrants wanting to gain market share, companies that can obtain higher synergies, etc)

Hence, we would like to keep the 'fair value less costs of disposal' method as a second valuation methodology in case the VIU method would indicate an impairment.

**Q3.2 Do you agree with the inclusion of future restructurings in the calculation of the value in use?**

We fully agree to include – when relevant – future restructurings in the dividend discount model. In this way, the most reliable future dividend streams can be projected, on which the VIU is based.

In case of a new acquisition, mostly the acquiree is subject to a change in strategy, systems and might also undergo a merger with another entity of the group. The acquirer takes into account all elements known to him (so including the future restructuring) in pricing the target company, hence it is logical that synergy advantages based on a plan are included in the VIU calculation.

**Q3.3 Do you agree with allowing the use of a post-tax discount rate?**

A post-tax discount rate does not apply in our case since the goodwill test uses the DDM where the discount rate is the cost of equity, which – unlike debt – is not impacted by taxes.

This topic is of relevance for goodwill models using the WACC (weighted average cost of capital, blend of equity and debt costs) as a discount rate.

**Q3.4 Do you agree that the impairment test should target internally generated goodwill? Is the goodwill accretion an acceptable way to do so?**

It is our understanding of this discussion that the concept of goodwill accretion serves the purpose of consuming goodwill over time, i.e. making its life finite. Under this approach, goodwill should be finite and hence there is a creation of "goodwill accretion" (sort of an indirect amortization) while accounting-wise in the financial statements goodwill does not follow an annual amortization.

We disagree with the notion that purchased goodwill is in most cases being consumed over time and therefore has a finite life. In a going concern, the useful life of the purchased goodwill is infinite, as long as the expectations of the business plan on which the acquisition was based is achieved in a sufficient way.

**Q3.5 Do you have any other suggestions to improve this area of the goodwill impairment test?**

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