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Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

EFRAG

35 Square de Meeûs

B-1000 Brussels

28 December 2017

Dear Sir or Madam,

**Re: EFRAG Discussion Paper Goodwill Impairment Test: Can it be improved?**

We are pleased to offer our comments on the proposals in the EFRAG Discussion Paper, Goodwill Impairment Test: Can it be improved? (the DP).

Although the DP provides some interesting ideas and suggestions, we feel that many of the proposals will actually increase the complexity of the accounting in this area. We would suggest that before proceeding further with these ideas EFRAG should discuss them directly with users and preparers in order to identify practical solutions which would help users and not increase the burden on preparers.

Our responses to the specific questions posed in the DP are attached.

If you require any further information on our response, please do not hesitate to contact us.

Yours faithfully,

Patrice MARTEAU
Chairman

## 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?

We think that the principal difficulty in allocating goodwill is really a consequence of the complex structures of groups and the problem of identifying current and future synergies. This cannot be easily solved by standard-setting means. We have the impression that the solutions suggested in the DP are primarily of the nature of anti-abuse measures aimed at ensuring that the allocation of goodwill will lead rapidly to an impairment.

Although the approaches suggested might help some preparers, they should be considered to be of an illustrative nature, be provided as options and should certainly not become mandatory. We are particularly concerned by the second method (paragraphs 2.11-2.12) since this will not allow goodwill to be allocated to a CGU if no other assets are allocated to it. It is possible that even in the absence of other assets being allocated to a CGU, one might have reasonable grounds to believe that it will benefit nonetheless from the overall synergies generated by the acquisition. Furthermore, this suggested approach runs counter to paragraph 80 of the current text of IAS 36 which states that goodwill may be allocated to a CGU "irrespective of whether other assets or liabilities are assigned to those units or group of units".

Finally, we are not convinced by the suggestion for additional disclosures providing analysis of the individual carrying amounts of goodwill created by successive acquisitions and their subsequent accounting. While we understand that the purpose of this is to enable users to assess the success of the entity's various acquisitions, we think that the effort required to track and assess each individual component of goodwill in the CGU for impairment will be extremely onerous, particularly in cases where reorganisations or sales of parts of CGUs have taken place. To push this requirement to its logical conclusion, a full allocation of impairment to the individual goodwill acquisition in each CGU would have to be made and this could be not only even more onerous, but also could be achieved only on an arbitrary basis, thus calling into question its usefulness. We would suggest that the case for this must be absolutely irrefutable before it is taken any further. This means that those (few?) sophisticated users who might be able to draw conclusions from this data must justify conclusively why it is essential, and not just "nice to know".

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

The first question to be addressed is what the primary purpose of the proposals is:

- To accelerate the amortisation of goodwill?
- To reduce the complexity of the impairment test?
- To help preparers to understand better the purpose of the allocation of goodwill in order to perform it in a more relevant and useful way?

We think that these objectives may be mutually obstructive.

We do not think that the suggestions made will help reduce complexity but will, on the contrary, increase complexity both for preparers and users. Although the suggested approaches to the allocation of goodwill are to a large extent "mechanical" and thus might appear straight-forward to put into effect since no call for judgement is made, they do however require evaluations to be made which have not been necessary previously. Moreover, the examples provided are relatively simple since they relate only to the initial allocation and do not deal with the complex evolutions in a group's structure.

Finally, the suggestions do not seem to us to be likely to lead to more relevant information since they do not appear to take into account management's strategic vision of acquisitions or require management to apply any judgement to the allocation.

## 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 understand that the objective of the suggestions is to simplify the impairment test by avoiding the requirement to perform a complex test when the probability of an impairment loss is very low. In most circumstances initiatives aimed at simplification are welcome. However, in this case we think that the performance of such tests on an annual basis can be beneficial since it imposes the discipline of ensuring on a regular basis that there is no unexpected deterioration of the expected returns from the acquisition. In addition, the performance of an annual test helps to maintain the competencies required to perform a complex exercise and to ensure that the data-collection mechanism functions properly.

Finally, we think that a judicious application of the principle of materiality should permit entities to avoid carrying out a test when the potential negative impact is very small.

Nonetheless, we think that this idea is worth pursuing as an option available to entities in relevant circumstances.

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

No.

## 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?

Although this suggestion may seem at first sight to simplify the impairment test, we are not convinced that it provides an effective solution. We accept that fair value is often difficult to obtain and may not necessarily reflect the expected use of the assets. However, the establishment of a fair value has the advantage of providing an alternative value which can be used to test the reasonableness of the value in use . We therefore believe that the current method is relevant and should be maintained.

Nonetheless, if only one method of calculating the recoverable amount were to be retained, the value in use is the one that should be chosen as being the more relevant since VIU reflects the way in which management expects to extract value from the asset or assets. In order to ensure that VIU provides relevant and reliable data, it may be helpful to develop more guidance about how this valuation should be performed.

Finally, we think it is necessary to consider whether to maintain consistency between the calculation of recoverable amount for goodwill and that for other assets.

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

We agree with this suggestion. We think that this allows the data used for the calculation to be fully consistent with the cash flows projected and analysed by the management and , is also consistent with assumptions and targets on which the purchase price was determined.

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

We agree. We think that the standard should not impose a single discount rate. What is important is that the cash flows and discount rates used are fully consistent with one-another.

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

We do not agree and are of the view that targeting internally generated goodwill is not consistent with the objective of IAS 36

The objective of the DP appears to be to amortise the goodwill as quickly as possible, in contrast with IAS 36, whose objective is to ensure that an asset is carried at no more than its recoverable amount, irrespective of the source of the cash flows generated within the CGU.

It seems to us that what EFRAG's and the IASB's debates have in common is that they are challenging the way goodwill is accounted for rather than just reconsidering the way it is impaired. All of the approaches discussed seem to be based on the premise that the creation of internal goodwill should be matched by a consumption of the purchased goodwill. In essence, the suggested approaches amortise purchased goodwill as goodwill generated internally increases.

If the prolonged maintaining of purchased goodwill on the balance sheet is seen as a real problem, then the debate should be focused on the question of whether it should be amortised or not, rather than to suggest arbitrary and complex depreciation approaches.

In addition to the conceptual basis of these proposals, which we think are of debatable validity, we think that the method suggested in the DP presents several faults or inconvenient elements:

- It relies on the use of an accretion rate, the methodology for determining which is not explained and which will probably give rise to numerous problems of interpretation or application;
- It could lead to the impairment of goodwill even though the recoverable value of the CGU is higher than the carrying value. As stated in IAS 36, goodwill does not generate independent cash flows. Consequently, an element of goodwill cannot be tested or impaired separately. It is the whole of the CGU which should be tested for impairment.

- The impairment charges resulting from this method are difficult to explain from an economic point of view. The relevant information about a deterioration in returns provided by the current approach would be replaced by a simple explanation of the accretion method which led to the impairment.

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

**No.**