Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

AUTORITE DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CÉDEX 12
Phone (+ 33 1) 53.44.28 53
Internet http://www.anc.gouv.fr/
Mel patrick.de-cambourg@anc.gouv.fr
Chairman 04.

Paris, 17 JAN. 2018

EFRAG Board
Jean-Paul Gauzès
35 Square de Meeûs
B-1 000 Bruxelles

**Re: EFRAG's discussion paper on 'Goodwill impairment test: can it be improved?'**

Dear Mr Gauzès, Cher Jean-Paul,

I am writing on behalf of Autorité des Normes Comptables (ANC) to express our views on the above-mentioned discussion paper. These views result of the ANC's due process, involving interested stakeholders and validated by the Board on January 12, 2018.

We first welcome the discussion paper's initiative to stimulate discussions on improvement of impairment tests, which was considered as an action point following the post implementation review of IFRS 3 "Business combination". We understand that the result of this consultation will be shared with the IASB as an input to its own project related to improvement of impairment tests.

*Scope of the discussion paper limited to Impairment tests*

Before commenting the discussion paper, ANC considers important to highlight the objectives of the paper, which are to propose simplification measures on the way impairment tests are implemented by entities while maintaining or enhancing its relevance. We take this opportunity to mention that ANC is not in favour, from a general standpoint, to consider again a system of amortization of goodwill. We believe that the impairment only approach has its merits, that impairment testing has made significant progress since its implementation and that a stable platform of standards is desirable. We therefore do not support in principle initiatives leading to, directly or indirectly, consider amortizing goodwill.

The first part of the paper discussing how to allocate goodwill to CGUs and how to disclose information on goodwill is more related to the general nature of the goodwill and its resulting accounting issues than to the impairment tests. ANC understands the different proposals in the first part of the discussion paper as mainly being anti-abuses clauses against opportunistic allocations to CGUs, which do not fit with the objective of simplification of the impairment tests. ANC believes that any such discussions related to the accounting for goodwill should not be part of this paper and should eventually be contemplated within a wider and longer term project on goodwill accounting.

Nevertheless, ANC outlines its strong reservations regarding the proposal of the pre-acquisition headroom approach and wonders whether it is conceptually relevant, since there is no evidence that the decrease in the headroom relates to acquired goodwill rather than to pre-existing internally generated goodwill. In addition, ANC doubts that this method is workable on a long run in case of successive acquisitions. Indeed, even if it is possible to measure the pre-acquisition headroom of a second acquisition, it is not clear on how to determine the cumulative pre-acquisition headroom taking into account different acquisitions at different dates. To conclude on this point, the examples given in the discussion Paper are considered too simple to really illustrate how it would work on a continuous basis. ANC considers that any relevant follow-up of these values would be very difficult to implement.

Moreover, both proposed methods for allocating goodwill to CGUs may lead to the recognition of a day-1 loss. ANC questions the relevance of such outcome for an arm's length acquisition.

Regarding the proposed accretion method for subsequent measurement of goodwill, ANC considers that it is similar to a partial amortisation method that is not supported by any conceptual basis. ANC understands that the objective of the discussion Paper is not to assess whether it could be relevant introduce amortization of goodwill, but rather to propose improvements to impairment testing under an impairment-only principle. Therefore, the proposed method does not serve the objective of the impairment test which is to ensure that the assets are not over-estimated.

As a consequence, ANC proposes to focus only on **quick possible improvements** ("quick wins") of the impairment test itself which are mainly addressed in the second and third parts of EFRAG's discussion paper.

*Step zero Approach*

Many ANC's constituents consider that the annual impairment test of CGUs is a good exercise that is useful for management purposes. Nevertheless, ANC would be favorable to have an option between a "step zero" approach as proposed in the discussion Paper and the current annual mandatory impairment tests. This will allow preparers not to proceed with impairment testing when it is obvious that no impairment charge would be needed. ANC considers that this option should be accompanied by a mandatory impairment test on a periodic basis, whatever the outcome of the "step zero" test.

ANC outlines that the proposed indicators of impairment in the "step zero" approach are very similar to those under US GAAP, but understands that the thresholds triggering the impairment test are significantly different: under US GAAP, the impairment test is not mandatory whenever it is probable that it would not result in an impairment expense, whereas the likelihood of an impairment loss shall be remote for avoiding an impairment test under EFRAG's proposal. ANC would prefer identical thresholds in order to keep a same level playing field between entities using IFRSs and US GAAP entities. Nevertheless, ANC questions the relevance of the "probable" threshold under US GAAP, which seems too easily reachable.

*Recoverable amount*

Although ANC agrees that the Value In Use (VIU) is the method which is in practice the most used for the assessment of the recoverable amount, we are not convinced that cancelling the option between "fair value less costs of disposal" method and VIU method is a real measure of simplification. ANC considers that entities should to be able in certain circumstances to perform their impairment tests on the basis of the fair value less costs of disposal of the CGUs.

*Calculation of Value In Use*

ANC agrees with EFRAG's proposal that the future restructuring costs be taken into account for the calculation of the VIU as well as all the other assumptions made by the management for its business plan (including planned investments).

Regarding using a post-tax discount rate, ANC agrees with EFRAG's proposal, and reminds that what is important is to make sure that the different assumptions are mutually compatible: a post-tax discount rate shall be used with post-tax cash flows, and compared with a CGU book value including tax assets and liabilities and unrecognized deferred taxes.

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

Best regards, Amitiés.

Patrick de Cambourg

Patrick de Cambourg