September 15th 2014

Mrs Françoise Flores
European Financial Reporting Advisory Group – EFRAG
35 Square de Meeûs
1000 Brussels
Belgium

Re: Discussion Paper: Should goodwill still not be amortised?

Dear Françoise,

We thank the Research Group for the survey it has performed on the accounting and disclosure required for goodwill and for its initiative to publish its outcome though a Discussion Paper.

We, Société Générale, then welcome the opportunity to provide our views on the amortisation of goodwill. We believe that goodwill should be amortised and also tested for impairment when there is an event that indicates that there may be impairment. This amortisation will then reflect more appropriately in the financial statements the acquisition of an asset and its consumption over the payback period as it was expected when agreeing the related business combination.

Moreover, if goodwill were amortised, it would reduce the issue of guidance regarding the valuation of CGUs and related goodwill and the need to increase the related disclosure compared to those currently required.

Additionally, we think that the current requirements to identify intangible assets separately from goodwill should be maintained in order to adequately present in the balance sheet the different identifiable assets that have been acquired through a business combination.

Our answers to the detailed questions of the invitation for comment are provided in the appendix.

If you have any queries regarding our answers, please do not hesitate to contact us.

Sincerely yours,

Thierry GARCIA	Pierre-Henri DAMOTTE
Group Chief Accountant	Head of Group Accounting Standards

Appendix

1. *Do you agree that there should be a requirement to recognise goodwill as an asset and amortise it over subsequent periods? If so, do you support amortisation because:*

   (a) goodwill existing at acquisition date is consumed and replaced with internally generated goodwill over time, thus it should be allocated to subsequent periods as part of the cost of acquiring an entity;

   (b) an impairment-only model is not sufficiently reliable due to the large use of assumptions in the impairment test (future cash flows, terminal growth rate and discount rate); or

   (c) amortisation of goodwill, in addition to the impairment test, achieves an appropriate cost-benefit balance.

SG answer:

We agree with the recognition of goodwill as an asset.

And we believe that goodwill should be amortised and also tested for impairment when there is an event that indicates that there may be impairment.

It will then reflect more appropriately in the financial statements the acquisition of an asset and its consumption over the payback period as it was expected when agreeing the related business combination.

Such combination of systematic amortisation and impairment testing when there would be an indication of depreciation will also achieve an appropriate cost-benefit balance for implementation: indeed the current non-amortisation of goodwill has put a great emphasis on the impairment testing and on the related valuation of cash-generating units which has been found very costly to perform on a recurrent basis.

2. *Assuming that there was a requirement to amortise goodwill, do you think that the IASB should:*

   (a) indicate what the amortisation period should be?

   (b) indicate a maximum amortisation period?

   (c) provide guidance on how entities should assess the amortisation period (for instance, by referring to the expected payback period or the useful life of the primary asset)?

   (d) allow entities to elect the amortisation period that they consider appropriate?

SG answer:

We think that IASB should provide guidance on how entities should assess amortisation period.

Entities should then disclose in their appendix the amortisation periods they have used and how they have been determined.

Providing fixed amortisation period or maximum amortisation period would represent a rule-based approach, and as such may not fit to all cases. Should a maximum amortisation period be provided, it should be then rebuttable on a case by case basis. Additionally, a rule-based approach is not consistent with the current philosophy of the Board when issuing new standards which currently aim to remain principle-based.

3. *The DP suggests the need for improved guidance in a number of areas in IAS 36. Do you think that the IASB should improve and/or provide additional guidance in relation to:*

   (a) the methods to determine the recoverable amount of the goodwill;

   (b) the application of the value-in-use method;

   (c) the identification of cash-generating units and allocation of goodwill to each unit; and

   (d) the choice of the discount rate.

   If not, please indicate why. Please state any specific suggestions for improvements if you have.

SG answer:

Improvement of guidance regarding the valuation of CGUs and related goodwill would not represent an issue if goodwill were amortised.

A systematic amortisation of goodwill over their useful life (based on the expected payback period determined when entering into the business combination) will reduce progressively the accounting value of goodwill. As a consequence, the sensitivity of an impairment test will also be reduced progressively over the time. Then valuation of CGUs and related goodwill will represent a less critical issue for both preparers and users of financial statements.

4. *The DP suggests a number of possible new disclosures about impairment testing for goodwill. Do you think that the IASB should consider improving requirements to:*

   (a) assist users in understanding the robustness of the modelling and the entity's current assumptions;

   (b) provide confirmation of the 'reasonableness' of the entity's past assumptions; and

   (c) assist users in predicting future impairment.

SG answer:

For the same reason mentioned in our answer to question 3 (depreciation of goodwill would reduce the sensitivity of impairment testing), we do not believe that additional disclosures are needed compared to what is still required by current standards, neither for the valuation of CGUs and goodwill and neither for the allocation of goodwill to each unit.

5. *IAS 38 requires that intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually. Assuming that there was a requirement to amortise the goodwill, do you think that the same requirement should be extended to other intangible assets with indefinite useful lives? In addition, assuming that there was a requirement to amortise goodwill, do you think that the current requirements of identifying intangible assets separately from goodwill should be reconsidered? If so, how?*

SG answer:

We consider that a goodwill recognised through a business combination has a useful life (such as the expected payback period determined when entering into the business combination), which leads to the amortisation of the goodwill over this period.

In our mind, such amortisation of goodwill does not preclude the separate recognition of identifiable intangible assets, even of intangible assets with indefinite useful life which are then not amortised but rather tested for impairment (like it can be the case for some brands for instance).

Consequently, assuming that there was a requirement to amortise the goodwill, we do not think that the same requirement should be extended to other intangible assets with indefinite useful lives. Additionally, we think that the current requirements to identify intangible assets separately from goodwill should be maintained in order to adequately present in the balance sheet the different identifiable assets that have been acquired through a business combination.