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Banking supervision
And Accounting issues Unit

The Director

Paris, September 25th 2014

EFRAG- Discussion Paper : Should goodwill still not be amortised ?

Dear Mrs Flores,

The FBF is pleased to comment the Discussion Paper jointly issued by EFRAG, ASBJ and OIC : "Should Goodwill still not be amortised ?"

To answer questions, the FBF will report the main important points regarding the discussions of accounting requirements for goodwill.

Initially, the IASB considered that impairment test model presents a more accurate vision of business combination as management estimate of the useful life of goodwill leads to long abusive period of amortization and to diversity in practices. Yet, most of the debate over the method has focused on the too late recognition of impairment losses in certain cases out of phase with the market anticipations on the difficulties of the entity, a lack of transparency and the pro-cyclical effects of the standard.

Goodwill is an indicator of how much acquirer was overpaying for the net assets of the acquiree. We need to consider how to better reflect changes to the underlying economic characteristics of the goodwill and the gradual reduction in value of the goodwill over its useful economic life.

Impairment model raises significant practical issues that outweigh its intended benefits.
The impairment test is a complex process of identifying potential impairment losses requiring a lot of resources, involving significant judgement due to the assumptions required and resulting in significant costs. A high degree of subjectivity is involved when identifying indicators of impairment or cash-generating units or when defining the appropriate level at which the impairment should be tested which explains why some commentators reach different conclusions than the management.

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Recognition of impairment has no predictive valued as it is intended to be in theory. It becomes a confirming value. Changes in investors' expectations and stock market prices anticipate write-downs and suggest that impairment of goodwills is no surprise. The impairment model introduces more volatility in the profit or loss depending on changes in the economic cycle or the capacity of the entity to create value. It could not provide useful information. Therefore we question whether impairment charges are recognised on a timely basis and provide a better understanding of the economic results over time, compared to an amortisation model.

Amortisation of goodwill would allow recognising the reduction in value of goodwill that has a limited useful economic life. A prudent period of amortization should be defined where goodwill is not capable of continued measurement. The appropriate period should be based on the nature of the intangible asset or of the investment underlying the goodwill, on the period over which the investment will be recovered. Changes in business environment should also be considered.

For these reasons, we do not believe that the impairment-only approach properly reflects the consumption of goodwill over its useful life.

We advocate to allow amortisation of goodwill. It would to reduce the focus put on goodwill impairment and the pro-cyclically effect on profit or loss it causes and it would ease the burden of the impairment test.

Amortisation could be complemented by impairment test in cases of impairment arising on initial recognition of goodwill or of subsequent events or changes in circumstances that might result in an unexpected decrease in the estimate of the recoverable amount. Then, adequate impairment charges should be recognised as a loss rather being amortised over the life of the asset.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Bien à vous.

Jean-Paul Caudal