la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

October 25th 2019

FASB
Technical Director
File Reference No. 2019-720

Invitation to Comment "Identifiable Intangible Assets and Subsequent Accounting for Goodwill"

Dear Sir / Madam,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), welcome the opportunity to share its view on the specific subject of goodwill as part of the consultation undertaken by the FASB on the Invitation to Comment "*Identifiable Intangible Assets and Subsequent Accounting for Goodwill"*.

SFAF represents more than 1,500 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises (22) member organizations representing more than (16,000) investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

SFAF Accounting and Financial Analysis Commission has regularly answered consultations from the IASB, the European Commission, ESMA, EFRAG, AMF, ANC, FRC and SFAF members have been active members of working groups for these institutions, actively representing the users community[1]. We are very happy to see the FASB opening a consultation on this much debated and complex subject, which is a key subject for users.

We usually do not make comments on US GAAPs as our everyday job is mostly based on IFRS or local European standards. We nevertheless wished to remind the FASB the comments we made in the past on the specific subject of goodwill from a user perspective as we consider that the current accounting of goodwill under IFRS (IFRS 3) is very close to US standards, and both FASB and IASB have a project on this matter, the latter with a Discussion Paper expected in February 2020. In addition, we have been unhappy with the

[1] Jacques de Greling was a member of the FASB-IASB Joint International Group on Performance Reporting, starting 2003.

current IFRS practice for more than 15 years as explained in the attached letters[2] to the IASB and EFRAG regarding goodwill, sent over to them over more than 15 years. Our contribution, as users, will be thus limited to these letters.

We would like to stress that we have regularly concluded that the conceptual basis for no amortization of the goodwill is flawed: the fact that it is difficult to determine expected economic life does not mean that amortization should be stopped, and the current impairment test is unable to properly assess the value of the sole acquired goodwill[3]. The practice has too frequently resulted in the absence of any real useful and timely impairment (Financial analysts are usually fully aware of the failure or the underperformance of an acquisition years before the impairment), a state captured in the “too little, too late” formula.

We consider that, during the last years, various attempts by the IASB (headroom goodwill) or EFRAG (goodwill accretion) to improve the current standard (IFRS 3) were last-minute, impracticable, attempts to keep afloat the existing standard and practice. We note that they were also explicit recognitions of the flaws of the current standard and practice.

In spite of our repeated comments on goodwill, we are still disappointed. We therefore hope the standard setters to move on this subject as the failure of the current standard is well established in the eyes of users (In 2003, we already announced most of the flaws). In a recent IASB staff paper on goodwill amortization[4], nine arguments in favour of goodwill amortization were listed, while only three in favour of the impairment-only approach were listed. Surprisingly, the preliminary conclusion of this paper was that things should not be changed.

In the past, the FASB was finally able to correct improper accounting standards (stock-options, 1994). We are very pleased to see the FASB following a similar pattern regarding goodwill amortization.

In the attached letters, you will also notice that we see very little interest in identifying other intangibles in business combination, as their valuation is often highly unreliable, and are almost never sold separately from goodwill. We believe that this project gives also the FASB the opportunity to improve the disclosures regarding goodwill (for instance, a simple table with the list of the main acquisitions, with year, gross and net amounts, name of the acquired entity, segment in which they are allocated,…), that would be very valuable for users.

Regarding the goal to simplify the current impairment test, we believe is it in contradiction with the current practice of no amortisation. If we were to accept the concept of no goodwill amortization, such an exceptional deviation from the treatment of other assets, we believe it would have to be guaranteed by a demanding and regular impairment test.

Finally, we would like to remind the FASB that, in France, for non-listed companies, French consolidated GAAP are still applicable: it means that since 1986, goodwill has been

[2] All our comment letters and publication are public and available at http://www.sfaf.com/base-documentaire/ in the category Accounting & Financial Analysis Commission.
[3] The test values the acquired goodwill, plus the goodwill recreated since the acquisition, and the goodwill pre-existing in the cash generating unit, but never recognised.
[4] IASB meeting June 2019, *Reintroduction of amortisation of goodwill*, page 25.

amortized[5]. We understand also that Japanese companies are required to amortize goodwill. We are unaware of any major frustration for the users community of this practice.

We hope that this cover letter and the attached comments letters will be considered as valuable inputs from the users of financial information. If you would like to further discuss the views expressed in these letters, please do not hesitate to contact us.

Yours faithfully,

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Attached Comment Letters:

- SFAF comment letter on EFRAG discussion paper « Goodwill Impairment Test: can it be improved?" -February 2018.
- SFAF comment letter on IASB Agenda Consultation (paragraph 6) – December 2015
- SFAF comment letter to the IASB on IFRS 3 post implementation review – June 2014
- SFAF comment letter to the IASB on proposed amendments to IFRS 3 – October 2005
- SFAF comment letter to the IASB on Business Combination Exposure Draft – April 2003

[5] As a consequence of the 2013 EU directive on accounting, companies can use the impairment-only approach in some casess.

la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

February 12th 2018

Mr. Jean-Paul Gauzès
EFRAG Board President
35 Square de Meeûs
1000 Brussels
Belgium

Discussion Paper "Goodwill Impairment Test: can it be improved?"
Comments by the French Society of Financial Analysts (SFAF)
Financial Analysis and Accounting Commission

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is very pleased to submit its contribution as part of the consultation undertaken by the EFRAG on the Discussion Paper "*Goodwill Impairment Test: can it be improved?"*.

SFAF represents more than 1,500 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 26 member organizations representing more than 15,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

As an introductory statement, as users of financial information, we strongly agree with the general statement that current standard (IFRS 3) relies on an impairment test that, in real life, delivers only "too late, too little" impairment being accounted for. For wider comments on the standard, see our comments at the end of this letter (and the references included).

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

We believe that some companies may be tempted to allocate goodwill to CGU where impairment is less probable (i.e. CGU with “headroom goodwill”). We have also in mind some re-allocation of acquired goodwill to other CGUs in a second stage, with absolutely no impairments for years after while it is obvious that an impairment should have been made. We thus believe that having additional guidance on goodwill allocation (and subsequent re-allocation) would be a plus.

The examples provided in the document should be clearer, with limited options / choices. There is no explanation on what basis the goodwill amounts allocated to each CGU has been determined nor calculated. As noted in the discussion paper, there are some standard-setting work on “headroom goodwill” under way. It would thus be necessary to solve this problem first.

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

See above.

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

We do not support an approach where the impairment test could be postponed, based on an initial judgment. The (flawed) annual impairment test is the counterpart (see Q3.4) of the no amortization concept: it cannot be removed. As stated the “too little, too late” syndrome has proved that the standard is, already, not working properly: removing the annual obligation would only increase the syndrome.

Nevertheless, it does not preclude a company to do such an exercise, to better understand the factors having an impact on the value of the goodwill.

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

No, specifically.

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

We think that combining *fair value* with *value in use* have added complexity, especially as both approaches are not based at all on the same assumptions. In principle, we would argue that the application of one method will be more reasonable, comparable and understandable. But each of the two methods has its own drawbacks.

As a conclusion, it seems difficult to choose one of the two methods as a single one to be used on a compulsory manner. Choosing one method simply reflects how a company estimates the value of its acquisition. We thus suggest that the company should explain the rationale behind the choice of the method used for determining the recoverable amount and keep this method along the years*.*

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

For users the disclosure of relevant information is always advisable. In this case the inclusion of restructuring information would be relevant to the extent that the future restructuring will materialize as expected and within a reasonable period of time. We suggest that a group could not include restructuring beyond a three years period. Presenting potential benefits from restructurings in the calculation of the value in use should be done on the basis of a solid plan for implementation. And the reporting entity should disclose that this impairment test is based on assuming some restructuring.

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

Entities and users customarily use a free-market discount rate to calculate WACC and DCF (even though we believe this valuation method can be used to justify whatever the management wants). We will agree with using a post-tax rate for calculation purposes as the relevance of the results will not be affected while being more consistent as the basis for calculation by entities and users.

An entity using pre-tax discount rates should however explain the reason for that and disclose the basis for calculation.

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

One of the fundamental flaws of the current approach is that the impairment test compares the recorded goodwill (due to an acquisition) with the goodwill existing for the CGU at the time of the test. This latter includes goodwill generated internally after the business combination, which under current rules, is not considered as an asset. This was clearly recognised by the IASB Board when IFRS 3 was drafted (see BC 131E: *The Board acknowledged that if goodwill is an asset, in some sense it must be true that goodwill acquired in a business combination is being consumed and replaced by internally generated goodwill).*

The impairment test is really the cornerstone of the current approach (see BC 131G: *The Board agrees that IF a rigorous and operational impairment test could be devised…*). We believe that this aggregation of acquired and internally generated goodwill is one the main reasons of the current, and widely recognised, practice of “too little, too late” impairments.

Tracking the internally generated goodwill is thus a good idea. Unfortunately, as goodwill is defined as the part of the valuation that cannot be explained by assets and liabilities, a kind of residual, acquired goodwill and internally generated goodwill are mixed together and it is quite difficult to separate the two components. We thus have serious doubts that it could be possible to track the internally generated goodwill in an objective and operational manner.

In spite of that very significant difficulty, the goodwill accretion method could be a reasonable compromise to manage the current problem. We would suggest that the discount rate is fixed at the beginning of the business combination, so as to avoid having too many moving parts in the complete test, so that it could deliver whatever the accountant wants.

Finally we note that the choice of discount rate is, in fact, choosing an amortization period for the internally generated goodwill. This is inconsistent with the (wrong) current standard which states that *[the Board] observed that the useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict* (BC 131E).

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

Our views to improve this area are stated in the previous comments.

Beyond the subject of the impairment test, we would like to take the opportunity to remind EFRAG that SFAF has repeatedly said the IFRS 3 standard was flawed (as soon as ED 3 was published, we stressed that it could not work properly[1]).

When the IASB launched its Agenda Consultation, in 2015, business combination was identified by SFAF[2] as one of the top three subjects that the IASB should tackle quickly, as demonstrated by the widely recognized "too little, too late" syndrome. In particular, we stressed that the syllogism that goodwill is an undefined useful life can imply NO amortization, is flawed: all other assets (including very tangible ones) have an expected useful life that is difficult to estimate. As stated above, we note that the test is comparing acquired goodwill with the sum of acquired goodwill, pre-existing goodwill and internally generated goodwill: the test is thus, by no means, able to guarantee that the acquired goodwill will be impaired when needed. The simple fact the standard-setters are discussing "headroom goodwill" and "internally generated goodwill" is a proof of this fundamental flaw.

Finally, we recently stressed in the FRC consultation on cash-flows statements that the link between the income statement and the cash-flows statement is of central importance for users. Having no amortization of goodwill while having cash paid for it, is just cutting this very important link.

We are still disappointed by the IFRS 3 post-implementation review, with almost no result as of today. The fact that US GAAP have simplified the impairment test is not an acceptable

[1] See our 2003 comment letter, available at www.sfaf.com/download/29/
[2] See our complete letter, available at www.sfaf.com/download/157/

argument: simplifying a test that is already not delivering the effect it pretends to deliver is simply not the right direction. Finally, as the current IFRS 3 was implemented mostly to converge with US GAAP (at a time where FASB was forced not to implement systematic goodwill amortization), as stated at this time, as users, we strongly favor good (workable and working) standards over (bad) converged standards.

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting for users. If you would like to further discuss the views expressed in this letter please do not hesitate to contact us.

Yours faithfully,

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la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

December 31st 2015

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Request for Views, 2015 Agenda Consultation

Comments by the French Society of Financial Analysts (SFAF)
Financial Analysis and Accounting Commission

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers) is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) on the Request for Views, 2015 Agenda Consultation.

SFAF represents more than 1,500 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 26 member organizations representing more than 16,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on the Request for Views, 2015 Agenda Consultation.

One of the most important work IASB could do for users is improving IFRS 8 on segment reporting which introduced management approach. We still believe that this approach destroys what is so important for financial information, and in particular for segment reporting, that is to say comparability both over time and between companies in the same field. We have seen companies reporting segments that do not exist in the real world: no individual company involved only in such segments listed separately, and no single M&A deal involving such segments over the last ten years…We have seen companies completely changing segment reporting without changing (i.e. adding or selling) any activity. We also need to be able to compare performance when companies report similar activity, i.e. using a common IFRS measure; without that comparability would be misleading / impossible. We also remind the Board that the key benefit of IFRS is to bring comparability, and that the management approach clearly contradicts this. Segment reporting is absolutely key for analysts as it allows them to put figures in perspective with the knowledge they have of characteristics, trends,.. of each business. We strongly expect that the post-implementation review will lead to real improvements. The Board can refer to the SFAF comment letter to IASB, related to IFRS 8 Post Implementation Review and dated 30th November 2012.

IAS 1 has been discussed for many years without providing real improvements for users, whereas there is some strong demand for improvement. The focus on matters that were of little interest for users (comprehensive income,…) partly explains that there is still some room for some improvements. In particular, we would favour having a better granularity on the face of the main financial statements. We believe that some performance measure such as operating profit that are of great necessity among users of financial statements should be defined, which is currently not the case. We also believe that it would be better to remove some options regarding whether some items can be “operating” or “financing” in order to make comparison between companies more straightforward. Examples of options that are an issue for users include taxes and employee benefits. We consider therefore that including some guidelines to issuers would provide great benefits to users (in addition we would welcome an improvement of IAS19 standard, by providing in the notes to financial statements expected cash in and outflow and the maturity of the liabilities (e.g. over 5 year period)). We also consider that the presentation of the income statement by nature is more robust that the presentation by function and is therefore much preferred by users. More generally, we would suggest that the Board could use, as a starting point, a rather good work that was done by the French national standard setter CNC (now ANC) when listed companies moved to IFRS in which users of financial statements were involved.

Another standard that has to be reviewed is IFRS 3 (also after a post-implementation review) as we strongly believe that the underlying concepts are absolutely unconvincing: non-amortization of goodwill because it is “difficult” to set an amortization period is simply not acceptable, and the impairment test fails to test the goodwill acquired as it is mixed with later created goodwill since the acquisition and previously unrecognized goodwill for business created by the group. Moreover the fact that impairments are, very often, only realized years after the market is aware of the failed acquisition (frequently when the management is changed) demonstrates how useless the information created is (as it is only confirmatory). We also believe that users are completely puzzled by the full goodwill approach, and that in many occasions, it provides very counter-intuitive information. The Board can also refer to the SFAF comment letter to IASB, related to IFRS 6 Post Implementation Review and dated 16th June 2014.

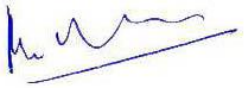
In addition we believe that the cash flow statement (IAS 7), after the very good improvement suggested with the recent disclosure initiative, could still be improved for the benefit of users. In particular, we would suggest (like for IAS 1) a greater granularity and removing some options that

are limiting comparability. We also need a reconciliation between some parts of the statements of cash flow (such as working capital requirements or capex) and the balance sheets. Granularity of the statements of cash flow should therefore be homogeneous with statements of profit & loss and statement of financial position.

Finally with regard to the period length as proposed by IASB (2016-2020) we propose to have a mid-term review to ensure the program meets the needs of users.

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting for users. We really hope that the views of users will drive the work program of the IASB and remain available for any further information.

Yours faithfully,



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June 16th 2014

Mr Hans Hoogervost
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United Kingdom

Request for information on IFRS3, Business Combination

Comments by the French Society of Financial Analysts (SFAF)
Financial Analysis and Accounting Commission

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) for the request for information in view of the Post Implementation Review of IFRS 3.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 29 member organizations representing more than 16,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on business combinations. We would like to stress that our Society has already made some detailed comments to the Board on the previous Exposure Draft of IFRS 3 in April 2003, and to the proposed revision in October 2005, to which you may refer.

To answer the questions included in the Request for information, the Commission decided to express the views of its members by reporting the conclusions of their debates on the most important points on IFRS 3 for users of financial statements, covering most of the questions.

NON-AMORTIZATION OF GOODWILL

Regarding the current non-amortization of the goodwill we note that the IASB originally concluded that goodwill should not be amortized as its useful life is indefinite, ie difficult to set. We believe that this argument is not acceptable, as many other assets have useful lives that are very difficult to assess: a tangible asset like a new generation of equipment (for instance, a 4G mobile network equipment) might, in some cases, be very tricky to assess. The current practice for these cases is to make reasonable guesses on the useful lives, usually on looking at past practice and experience. *We strongly believe that having difficulties in assessing the useful lives of some assets with finite life should not result in stopping all amortization*.
We believe that the management should make a reasonable estimate (and disclose it) of the useful life of any goodwill acquired in a business combination. As we doubt that any company can reasonably make investment decisions with a pay-back period longer than 20 years, an upper limit of 15 or 20 years (perhaps rebuttable, as in the former IAS 22) would be a good safety rule.
The recent return of the possibility of goodwill amortization in the US GAAP, for private companies, is a simple demonstration that making an amortization over a limited period (in this case, a maximum of 10 years) is a very workable choice.

One of the main arguments regarding non-amortization of goodwill is that acquired goodwill is later replaced by internally generated goodwill. We found this argument completely inconsistent with the current IFRS standards that, in fact, are preventing companies to recognize internally generated goodwill. We cannot see any reason why internally generated goodwill should be recognized for a subsidiary acquired, and not for the businesses developed internally. We consider indeed that in many or most cases, the goodwill acquired is by essence not the same as the one observed a number of years later, as the purpose of the management is to improve the profitability of a company and generate new goodwill, while goodwill identified at the acquisition date is set to erode over time. Our position is therefore more an accounting issue than a valuation one.

Another argument regards the meaning of goodwill amortization expense. We believe that a group needs to include an expense (goodwill amortization) in reporting its financial performance as goodwill was a part (and sometimes, a very significant part) of the original investment in the new subsidiary. In an extreme example, if a profitable subsidiary is purchased for a value that represents only goodwill (no other tangible or intangible assets), the group will include in its consolidated income statement only the acquired operating profit and the financial expense associated with the business combination, and no expense related to an asset that represents 100% of the initial investment. As demonstrated by this example, non-amortization of goodwill makes any calculation of dilution/accretion irrelevant in all cases involving significant goodwill amount.

Should the Board consider returning to goodwill amortization, an option we fully support, financial analysts need to have information disclosed about the amount included in the D&A expense (perhaps as a separate line) in the consolidated income statement. We also need to have a similar disclosure at each segment reported to better assess the performance of each business segment when it includes a new acquired subsidiary.

IMPAIRMENT TESTS

Regarding impairment test, we doubt that it can work properly. This is a very central point as goodwill non-amortization is supposed to be guaranteed by this safety mechanism. First, the impairment test mechanism cannot, in a single cash generating unit, separate properly the acquired (and recognized) from the internally generated (and never recognized) goodwill: this failure makes the impairment test inoperable in some instances. Secondly, following allocation of goodwill acquired to various cash generating units, after adisposal of part of some activities, a merger with newly acquired activity, or any reorganization inside the group becomes very difficult: we believe, that over the years, following goodwill in these kinds of situation is highly unrealistic and might open the door to significant accounting arbitrage.

A key point regarding impairment tests is that this regular calculation is done by the company itself, using its own assumptions (most of them not being disclosed). All seasoned analysts know how flexible are some valuation methods like discounted cash flows, relying on numerous different assumptions. With this process, where the buyer of an asset later decides which "fair value" this asset is then worth, there is systematic temptation to inflate valuation. In some instances, we have encountered impairment test where, just a rule of three, or even a simple rule of thumb, indicates that the implied fair values used are patently inflated. In a recent report examining a large sample of European companies, ESMA pointed that even some of the disclosed assumptions (ie, discount rates, and terminal growth rates) seems to be pretty optimistic. This is one of the key reasons why financial analysts never spend too much time at impairment test information.
This very limited interest for impairment test from analysts is also due to the fact, in many occasions, goodwill impairments are realized years after the market became fully aware of the overvaluation of the original investment, and in fact, this announcement is not providing any new information to the market. We also believe that many of these delayed goodwill impairments are only announced when the management of a group (sometimes the one that decided the business combination) is being replaced. There is a profusion of examples in the European capital markets demonstrating this point over the ten years where IFRS 3 has been applied. In such situations, the announcement of a goodwill impairment, does not provide any new information to the market.

The general practice of delayed impairments has also, in some cases, inflated significantly the reported equity. As a consequence, the gearing (usually defined as net debt / total equity), a very basic, and important, measure of the leverage of a group, has, in these situations, partially or completely lost its signification.

As a conclusion on these two subjects, we note that SFAF Accounting Commission in its comment letter on the ED 3 (CL 64) in 2003, i.e. 10 years ago, stressed that "the replacement of goodwill amortization by an impairment test […] would in practice, lead to no impairment being recognized". We unfortunately have to admit that this prediction has fully materialized, and that the information provided by the new standard on acquired goodwill to financial analysts has been mostly irrelevant.

OTHER INTANGIBLES

We are reluctant to the current practice of identifying additional intangible assets (brands, customer relations,…) beyond goodwill.
In particular, the valuations of these assets are highly subjective, and in fact, open to significant arbitrage opportunities for companies during business combinations. We also believe that impairment tests for those assets that are non-amortized are highly questionable, ie in a similar situation to goodwill. We note that the FASB, when designing FAS 141-142, originally requested

that there should be an active market to identify and value these assets; this pre-requisite was later removed as it would have prevented to recognize most of these intangible assets. As a sanity check, we also note that making comparisons between similar acquisitions, groups have identified different kinds of intangible assets, with very significant valuations for similar assets, thus demonstrating how subjective the valuations of these assets are.
Lastly, we doubt that it really provides a useful information for users of financial statements, as there is no separate market (not even requesting an active market) for such assets. We are no aware, over the ten years of application of IRFS 3, of any significant transactions where a group sold separately one of these intangible assets identified in a business combination. We thus challenge that these assets are really separable.
As a consequence, the valuation of this intangible assets provided with IFRS 3 is mostly irrelevant for users of financial statements. SFAF accounting commission, it is 2003 comment letter already stressed these points.

FULL GOODWILL / NON-CONTROLLING INTERESTS

As users, we strongly believe that the full goodwill is not useful for users of financial statements. In spite of the academic attractiveness of the entity approach, there is an overwhelming majority of users of financial statements that have a parent approach[1]: full goodwill is thus irrelevant for users.
Another point of the full goodwill approach is that the valuation of goodwill that could be allocated to non-controlling interests is highly subjective. In a business combination with non-controlling interests, one could argue that the price paid by the group to acquire control includes a control premium, or on the opposite, that the group could not acquire the remaining part of the capital because the valuation was not high enough for the minority shareholder. Analysts thus look at full goodwill valuation as highly unreliable.

Finally, the fact the revision of the standard blocked the valuation at the date of control, is inconsistent what investors wants to follow, i.e. capital invested. If we assume that a group acquires control with 51% of the capital for €10bn, and ten years later, while the acquired business has developed very successfully, the 49% are bought out for €30bn, in the financial statements, the amount of capital invested in the subsidiary would remained unchanged in spite of the very significant additional amount of investment. We don't think this is the kind or reporting image users need.
We also stress that this approach has very disturbing consequences (that were perfectly identified were the standard was revised). In the above example, after buying the non-controlling interest of in a very successful business, most probably the group will report a significant dent in the parent company equity: making a good investment thus destroys equity! Similarly, recording a profit on the consolidation of company previously treated as an associate is meaningless for an investor. This kind of effects, from a user perspective, is not acceptable.
We also believe that the choice made by numerous companies to use full goodwill, instead of the more relevant partial goodwill, is due to the fact that the latter option might lead to destroying more equity at a later stage should the non-controlling interests be bought out.

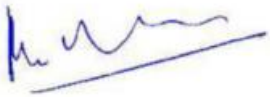
From an investor perspective (with a parent company approach) we fully support adjusting the valuation of a controlled subsidiary with each change in ownership percentage. This can be done through an increase /decrease in reported goodwill, or an increase / decrease of the valuation of controlled assets. This approach has also the benefit of being centered on the concept of invested capital (and not on estimated value unchanged over 10 years, in spite of change of ownership percentage at very different valuation), a key concept for investors.

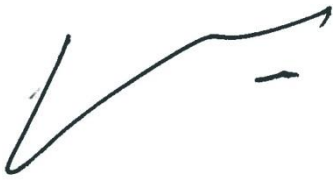
[1] We note that CRUF in its 2003 comment letter made exactly the same statement.

As a conclusion, the members of the Accounting and Financial Analysis Commission of the French Society of Financial Analysts (SFAF), while fully supporting the elimination of pooling overwhelmingly believe that the current underlying concept of indefinite useful live of the goodwill recorded at acquisition is flawed and are much in favor to the return to goodwill amortization. They also consider that the cornerstone mechanism that is supposed to guarantee no overvaluation of the reported goodwill is simply not working (as we expected, ten years ago), as demonstrated by the general practice. Finally they consider that the concept of full goodwill is not working and provide disturbing consequences. .

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting and remain available for any further information.

Yours faithfully,





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Letter of Comment No: 186
File Reference: 1204-001

Alan Teixeira
Senior Project Manager
International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH,
United Kingdom

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) on its exposure draft of proposed amendments to IFRS 3 *Business Combinations*, IAS 27 *Consolidated and Separate Financial Statements*, IAS 37 *Provisions, Contingent Liabilities and Contingents Assets* and IAS 19 *Employee Benefits*.

SFAF represents 1,700 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS). Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on certain consequences of the exposure draft.

SFAF has worked with the French national standard-setter, Conseil National de la Comptabilité, in its working group and thinks that most of the points developed in their contribution are reliable. In this contribution we will focus our comments on the parts which we consider the most important in the investor and user aspect.

Fair value

Concerning IFRS 3 we have noticed in the BC 16 & 17 that the Board believes that the goodwill is at the moment a mixture of some current exchange prices and some carry-forward book values for each earlier purchase, these inconsistencies result in information that is not as complete and as useful as it would be without them. Therefore, the Board decided that the measurement objective in accounting for business combinations should be the fair value of the acquiree on the acquisition date rather than the costs incurred in a business combination.

Even though this reasoning seems to be accurate, we are not fully convinced that it will bring a more complete and useful information. In our view it will only provide a different kind of information which isn't comparable to the current one. Nowadays, accounting gives information about the price agreed by both acquirer and acquiree which is basically the fair value at the time exchange happened.

We would point out that mixtures are happening almost everywhere in the balance sheet. Buying two similar assets at different times and prices would result in aggregating them wrongly in the same line. However, this is often the case in practice.

We have noticed that the exposure draft mentions, quite rightly, the case of the bargain purchase or the overpayment which can't lead up to the fair value of the exchange. However, the Board recognises itself that the treatment proposed concerning the bargain purchase is not consistent with the fair value measurement principles and concluded that the accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises. Those proposals don't seem to bring a suitable approach with the principles developed in the rest of the exposure draft. It also indicates that full goodwill assessment is in fact difficult.

Goodwill measurement and recognition

The board observed that paragraph 26 of the framework states that 'to be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluation.' Therefore, the Board believes that an entity's financial statements provide users with more useful information about the entity's financial position when they include all of the assets under its control, regardless of the extent of ownership interests held. Thus, the Board concluded that the full goodwill method is consistent with the concept.

However, intangible assets and especially goodwill are among the most difficult assets to measure and that's one of the particular tasks of financial analysts. Various use of financial statements could reach to different conclusion on the valuation and thus of its goodwill. The figures provided for the goodwill will not be used by users in most cases to reach conclusion on valuation.

Additionally, we believe that consolidated financial statements should focus on providing information to the shareholders of the parent company. Providing information on goodwill attributable to minority interests has thus very much less interest.

Consequently, we find this proposal conceptually interesting but not as important and relevant as the Board seems to consider.

Therefore, we agree with the five Board members Alternative Views which are formulated in the AV2 to AV7 paragraphs in the Basis for Conclusions on Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations.

We hope you find the above comments helpful. We thank you for the opportunity given to us to contribute to the accounting standardisation process and we remain available for any further information.

Yours faithfully,

Franck CEDDAHA,
Chairman of the Accounting
and Financial Analysis Commission

Alain CAZALE,
Chairman,
Société Française des Analystes Financiers

CL 64

Sir David Tweedie
Chairman, IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, 4 April 2003

Dear Sir,

The French Society of Financial Analysts, SFAF, (*Société Française des Analystes Financiers*) wishes to play an active role in the preparation of international accounting regulation. SFAF represents 1,700 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS), which brings together the main European financial analysts societies.

Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the development of the international standards.

For this reason, our association, through its Accounting and Financial Analysis Commission, was keen to respond to Exposure Draft ED 3, Business Combinations, and to the proposed amendments to IAS 36 and IAS 38, and would like to thank you for the opportunity to make its position known.

The draft standard on business combinations proposes the elimination of the pooling of interests method and the generalisation of the purchase method. The pooling of interests method seems to us to have no acceptable foundation. SFAF, being favourable to the application of a single method for accounting for business combinations, supports the IASB's proposals on this subject.

SFAF is very favourable to a convergence of international standards. However, aligning the treatment of goodwill impairment with that adopted by the FASB in 2001, as proposed by the IASB, does not seem desirable in current market environment. A search for convergence cannot be used to justify the acceptance of standards whose foundations are incorrect. Although favourable to the recognition of acquired goodwill as an asset, the French financial analysts we represent do not wish for:

- the replacement of goodwill amortisation by an impairment test which, by considering both acquired and internally generated goodwill together, would, in practice, lead to no impairment

being recognised. This implicit recognition of internally generated goodwill is in contradiction with current IAS practice in this regard.

- the allocation of goodwill to cash-generating units; coming in addition to the previous problem, the absence of any distinction between allocated goodwill and that included in the cash-generating unit but not recognised, would make monitoring goodwill over the medium and long term particularly complex and illusory.

Furthermore, regarding intangible assets, it seems important to point out that SFAF is doubtful as to the existence of assets with indefinite useful lives, and is convinced that a time limit should be set for the determination of the economic benefits expected to flow to an enterprise. We also consider that the valuation of these intangible assets is, in most cases, particularly subjective.

Moreover, the use of the cash flow methods proposed for the determining of these future benefits by accounting professionals will raise a certain number of issues. From experience, we consider that these methods are particularly sensitive to the assumptions made, in particular as regards discount and perpetual growth rates. The recent use of these methods for impairment testing by certain companies, even though they included the publication of reasonable assumptions for discounting and growth rates, has shown that the valuations obtained were still not very realistic.

In that respect, allowing enterprises to choose these assumptions does not guarantee the reliability of measurements of assets, and on the contrary seems to go against the policy followed by the IASB – of which, as financial analysts, we support the principle – consisting in adopting a benchmark treatment and progressively eliminating allowed alternative treatments in order to improve the comparability of corporate financial statements.

We would like to thank you for having involved SFAF in consideration of this draft and the proposed amendments and remain,

Yours faithfully,

Franck Ceddaha
Chairman, SFAF Accounting and Financial Analysis Commission

Bernard Coupez
Chairman of SFAF

EXPOSURE DRAFT 3
BUSINESS COMBINATIONS

Question 1 – Scope

The Exposure Draft proposes:

(a) to exclude from the scope of the IFRS business combinations in which separate entities or operations of entities are brought together to form a joint venture, and business combinations involving entities under common control (see proposed paragraphs 2 and 3 and paragraphs BC9-BC11 of the Basis for Conclusions). Are these scope exclusions appropriate? If not, why not?

(b) to include in the IFRS a definition of business combinations involving entities under common control, and additional guidance on identifying such transactions (see proposed paragraphs 9-12 and Appendix A, and paragraphs BC12-BC15 of the Basis for Conclusions). Are the definition and additional guidance helpful in identifying transactions within the scope exclusion? If not, what additional guidance would you suggest, and why?

Response:
SFAF agrees with the Board's proposals.

Question 2 – Method of accounting for business combinations

The Exposure Draft proposes to eliminate the use of the pooling of interests method and require all business combinations within its scope to be accounted for by applying the purchase method (see proposed paragraphs 13-15 and paragraphs BC18-BC35 of the Basis for Conclusions).

Is this appropriate? If not, why not? If you believe the pooling of interests method should be applied to a particular class of transactions, what criteria should be used to distinguish those transactions from other business combinations, and why?

Response:
SFAF agrees with the Board's proposal to eliminate the pooling of interests method. The pooling of interests method seems to us to have no acceptable foundation. We wish that one method only, the purchase method, should be used in all business combinations and that an acquirer should be identified for all such transactions.

Question 3 – Reverse acquisitions

Under IAS 22 *Business Combinations*, a business combination is accounted for as a reverse acquisition when an entity (the legal parent) obtains ownership of the equity of another entity (the

legal subsidiary) but, as part of the exchange transaction, issues enough voting equity as consideration for control of the combined entity to pass to the owners of the legal subsidiary. In such circumstances, the legal subsidiary is deemed to be the acquirer. The Exposure Draft:

(a) proposes to modify the circumstances in which a business combination could be regarded as a reverse acquisition by clarifying that for all business combinations effected through an exchange of equity interests, the acquirer is the combining entity that has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities. As a result, a reverse acquisition occurs when the legal subsidiary has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities (see proposed paragraph 21 and paragraphs BC37-BC41 of the Basis for Conclusions).

    Is this an appropriate description of the circumstances in which a business combination should be accounted for as a reverse acquisition? If not, under what circumstances, if any, should a business combination be accounted for as a reverse acquisition?

(b) proposes additional guidance on the accounting for reverse acquisitions (see proposed paragraphs B1-B14 of Appendix B).

    Is this additional guidance appropriate? If not, why not? Should any additional guidance be included? If so, what specific guidance should be added?

Response:
SFAF agrees with the Exposure Draft's proposals on reverse acquisitions.

Question 4 – Identifying the acquirer when a new entity is formed to effect a business combination

The Exposure Draft proposes that when a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination should be adjudged the acquirer on the evidence available (see proposed paragraph 22 and paragraphs BC42-BC46 of the Basis for Conclusions). Is this appropriate ? If not, why not ?

Response:
SFAF agrees with this proposal. In this particular situation, it is logical to consider that one of the combining entities forming part of a new entity is the acquirer.

Question 5 – Provisions for terminating or reducing the activities of the acquiree

Under IAS 22, an acquirer must recognise as part of allocating the cost of a business combination a provision for terminating or reducing the activities of the acquiree (a ‘restructuring provision’) that was not a liability of the acquiree at the acquisition date, provided the acquirer has satisfied specified criteria.

The Exposure Draft proposes that an acquirer should recognise a restructuring provision as part of allocating the cost of a business combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (see proposed paragraph 40 and paragraphs BC55-BC66 of the Basis for Conclusions).

Is this appropriate? If not, what criteria should an acquirer be required to satisfy to recognise a restructuring provision that was not a liability of the acquiree as part of allocating the cost of a combination, and why?

Response:
SFAF agrees with the Board's proposal that no recognition criteria other than those in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be used in respect of restructuring provisions in a business combination.

However, the conditions proposed by the Board seem too restrictive. On this point, SFAF supports the US GAAP position under which provisions for restructuring the acquiree are identifiable liabilities if the plan, on which development work commences as from the date of acquisition, is drawn up in detail and announced at the latest at the end of the 12-month period for allocating costs.

Question 6 – Contingent liabilities

The Exposure Draft proposes that an acquirer should recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, provided their fair values can be measured reliably (see proposed paragraphs 36 and 45 and paragraphs BC80-BC85 of the Basis for Conclusions).

Is this appropriate? If not, why not?

Response:
SFAF agrees with the Board's proposal.

Question 7 – Measuring the identifiable assets acquired and liabilities and contingent liabilities assumed

IAS 22 includes a benchmark and an allowed alternative treatment for the initial remeasurement of the identifiable net assets acquired in a business combination, and therefore for the initial measurement of any minority interests. The Exposure Draft proposes requiring the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree will be stated at the minority's proportion of the net fair values of those items. This proposal is consistent with the allowed alternative treatment in IAS 22 (see proposed paragraphs 35 and 39 and paragraphs BC88-BC95 of the Basis for Conclusions).

Is this appropriate? If not, how should the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of a business combination be measured when there is a minority interest in the acquiree, and why?

Response:
SFAF agrees with the Board's proposal to eliminate the partial remeasurement method, which generally tends to underestimate minority interest in consolidated financial statements.

However, with regard to the date at which assets and liabilities should be measured, we consider that in certain cases values at the acquisition date do not reflect the terms of the transaction stated when the parties come to an agreement.

For quoted equity based transactions, the IASB proposal would result in business combinations being measured at the date of exchange (which might be far from the date of the agreement), which would not reflect the value of the acquiree or of the combining entities taken into account in the terms of the transaction (e.g. the offer price or the parity of exchange agreed by the shareholders).

Question 8 – Goodwill

The Exposure Draft proposes that goodwill acquired in a business combination should be recognised as an asset and should not be amortised. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses (see proposed paragraphs 50-54 and paragraphs BC96-BC108 of the Basis for Conclusions).

Do you agree that goodwill acquired in a business combination should be recognised as an asset? If not, how should it be accounted for initially, and why? Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses? If not, how should it be accounted for after initial recognition, and why?

Response:
SFAF agrees with the Board's proposal to recognise goodwill arising in a business combination as an asset in the consolidated financial statements. However, we do not agree with the Board's proposals with regard to the impairment test, as the proposed test does not measure the goodwill acquired. The goodwill measured when the impairment test is made includes both the goodwill acquired and the internal goodwill generated after acquisition. It is therefore not very realistic to expect this test to provide evidence of a loss of value.

Furthermore, allocation of goodwill to cash-generating units also raises a certain number of problems with respect to monitoring. For example, how will goodwill be monitored in the case of the reorganisation or restructuring of a group that is itself the result of a business combination? How will that part of the goodwill that is sold after several reorganisations be measured?

For all these reasons, we consider that the Board is proposing techniques that in practice will justify the value given to goodwill and will not lead to recognition of impairment losses. We

therefore favour retaining goodwill amortisation and recognising an impairment of goodwill whenever there is an unfavourable change in the assumptions made at the time of acquisition.

Question 9 – Excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities

In some business combinations, the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the combination exceeds that cost. The Exposure Draft proposes that when such an excess exists, the acquirer should:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.(See proposed paragraphs 55 and 56 and paragraphs BC109-BC120 of the Basis for Conclusions.)

Is this treatment appropriate? If not, how should any such excess be accounted for, and why?

Response:
SFAF agrees with the Board's proposals.

Question 10 – Completing the initial accounting for a business combination and subsequent adjustments to that accounting

The Exposure Draft proposes that:

(a) if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination occurs because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer should account for the combination using those provisional values. Any adjustment to those values as a result of completing the initial accounting is to be recognised within twelve months of the acquisition date (see proposed paragraphs 60 and 61 and paragraphs BC123-BC126 of the Basis for Conclusions).

    Is twelve months from the acquisition date sufficient time for completing the accounting for a business combination? If not, what period would be sufficient, and why?

(b) with some exceptions carried forward as an interim measure from IAS 22, adjustments to the initial accounting for a business combination after that accounting is complete should be recognised only to correct an error (see proposed paragraphs 62 and 63 and paragraphs BC127-BC132 of the Basis for Conclusions).

Is this appropriate? If not, under what other circumstances should the initial accounting be amended after it is complete, and why?

Response:
SFAF agrees with the Board's proposals.