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CONSEIL NATIONAL DE LA COMPTABILITE

3, BOULEVARD DIDEROT
75572 PARIS CEDEX 12

Téléphone	**33 1 53 44 52 01**
Télécopie	**33 1 53 18 99 43/33 1 53 44 52 33**
Internet	www.finances.gouv.fr/CNCompta
E-mail	antoine.bracchi@cnc.finances.gouv.fr

FRIDAY, 04 APRIL 2003

Sir DAVID TWEEDIE
IASB Chairman
30 Cannon Street

LONDON EC4M 6XH

United Kingdom

AB/GV/MP

N°

Dear David,

We support the Board's analysis of goodwill and agree that in most cases goodwill can be considered as having an indefinite useful life; in those cases, impairment testing represents the best way to reflect the subsequent consumption of that item. However, we believe that to be workable, the impairment test must be practical and pragmatic. For that reason, we propose to limit the level at which the test must be performed to the reporting unit level that is defined by US GAAP. In addition, we consider that the 2 steps process of the test is imperfect and presents a high degree of complexity. Its implementation would lead to undue costs and efforts compared to the quality of the information provided.
On the other hand, we believe that there are situations where goodwill must be considered as having a definite short term useful life. In such cases, we are convinced that amortisation over that period would be more appropriate.

Furthermore, we would like to draw the Board's attention to the following comments :

1. We are concerned that the issuance within one year of two International Financial Reporting Standards (IFRS) on Business Combinations will create confusion for the European listed companies, which will adopt IFRS in 2005. Considering the exposure draft of the First Time application IFRS, if both Business Combinations standards become applicable in 2005, this would mean that both standards would have to be applied by European listed companies from January, 1st, 2004. In such case, we believe that the issuance of only one standard incorporating both Phase I and Phase II of the project would be far more preferable and acceptable, especially as some of the Board's decisions in phase II may be different or even contradictory with decisions made in phase I.

   In any case, if the Board maintains to its decision of issuing two standards we strongly believe that the first standard should be limited to general convergence issues (end of uniting of interest, changes in amortisation of goodwill and intangibles with an indefinite

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useful life and implementation of a new impairment test) and that all other decisions related to the acquisition method which should be revised during phase II of the project, should be delayed and incorporated in the second standard.

2. We fully concur with the convergence objective of the IASB in the Business Combinations project but we do not believe that identification and recognition criteria for the same assets or liabilities can be different in the standard on Business Combinations and in the IAS Framework or other standards dealing with the same elements. For example, recognition criteria for In Process Research and Development or contingent liabilities are different in the draft IFRS standard on Business Combinations and in the IAS Framework and other IAS standards (IAS 37). If the IASB believes that the US GAAP recognition criteria for intangible assets and contingent liabilities are better than the existing IASB criteria, then not only the standard on Business Combinations but also IAS Framework, IAS 37 and IAS 38 should be revised accordingly as conceptually. We see no reason for which the same assets or liabilities should have different recognition criteria, depending on how they are acquired or assumed.

3. As already explained, we fully concur with the convergence objective of the IASB in the Business Combination project but we note that the Board's decisions not to reconsider certain existing differences between IFRS and US GAAP may lead to inconsistencies:

- In paragraph 37 of SFAS 141, US GAAP keep a difference in the method of determining the fair value of plant and equipment to be sold and plant and equipment to be used when the proposed IFRS on Business Combinations only accepts one method for plant and equipment to be used or to be sold. This may cause inconsistencies in ways the convergent impairment rules are subsequently applied to these assets.
- IASB adopts globally certain US GAAP impairment rules for goodwills and cash generating units in SFAS 142 but has not modified IAS 36 for certain major differences in the approach to impairment. SFAS 144 paragraph 7 still indicates that the carrying amount of a long lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group), when IAS 36 states that an asset is impaired when the carrying amount of the assets exceeds its recoverable amount, which is defined as the higher of the asset's net selling price and the present value of future estimated cash flows i.e. discounted cash flows. The difference may also create inconstancies in the determination of the impairment of a cash generating unit.

We believe that whenever the IASB decides to maintain or create a difference with US GAAP, it should, in view of the convergence objective, document systematically the reason for such differences on IASB's website.

If you would like further clarification on the points raised in this letter, I will be happy to discuss this further with you.

Yours sincerely,

Antoine BRACCHI

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Comments following Exposure Draft 3 of the proposed IFRS *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?

(a) We agree with the Board's proposal to exclude transactions in which separate entities are brought together to form a joint venture and business combinations involving entities under common control from the scope of the phase I exposure draft. However, we are convinced that these issues should be addressed as soon as possible and not later than 2005, either in the context of the phase II project or in a specific standard, as we consider these types of business combinations as rather common.

(b) We regard the definition of a business combination involving entities (or operations of entities) under common control as very helpful. However, we suggest that the Board include additional guidance on the "not transitory" notion of the control that is required when assessing the existence of the control before and after the combination.

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?

We agree that the purchase method should always be used when the acquirer can be identified and that this is possible in the vast majority of business combinations (other than the formation of joint ventures).
But, although we are very mindful of the disadvantages of having more than one method of accounting for business combinations, the purchase method should not always be the only treatment in business combinations.

Indeed, we are concerned that certain rare business combinations in which no acquirer can be identified be accounted for on the basis of purely arbitrary criteria as this would not serve the utility of the financial information for the users.

We believe that the identification of an acquirer may be difficult or even impossible in circumstances such as:

- transactions in which none of the former shareholders groups of the combining entities obtain control over the combined entity such as certain so called mergers of equals.

For those reasons, we believe that the Board should complete its work on the fresh start method and the comparison with the pooling method to ascertain whether the fresh start method is a better method to account for business combinations in which no acquirer can be identified.

In addition, current criteria that are defined in the standard and that are retained in the Exposure Draft may contradict each other in a specific business combination, for example the shareholders of one company have the majority of the votes in the combined entity but the management of the combined entity comes exclusively from the management of the other combining entity. We consider that identification of an acquirer could be made easier, if the standard indicates a hierarchy among the other criteria (management, stock exchange capitalization, remuneration by cash or equity instruments…).

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?

(a) We agree with the proposal of the Board not to carry forward paragraph 12 of IAS 22 relating to the guidance on the identification of the acquirer in a business combination effected through an exchange of equity interest. We are convinced of the necessity to retain the same control concept for identifying the acquirer, whatever the structure of the transaction is, and that the circumstances described in paragraph 12 could override the definition of control.

(b) We regard the proposed additional guidance on the accounting for reverse acquisition as appropriate**.**

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?

We consider that a business combination in which a new entity is formed to issue equity instruments to effect the combination is, in substance, not different from a transaction in which one of the combining entities that existed before the combination obtain control of the other combining entity. We, therefore, agree with the Board's proposal 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 business combination should be considered the acquirer, based on the evidence available.

However, we also believe that, in some rare cases, it may be practically impossible to identify which of the preexisting companies is the acquirer. In these cases we believe that the accounting method to be used should be consistent with the method used for other business combinations in which an acquirer cannot be identified (see our comments to question 2).

Question 5 - Provisions for terminating or reducing the activities of 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?

We disagree with the Board's proposal. We believe that, as the acquirer's restructuring program for the acquiree is part of the acquisition plan, it would be more relevant, in order to reflect the actual conditions of the acquisition, to include those costs in the determination of the cost of a business combination. Arguments in favor of that accounting are the followings:

- the acquiree's restructuring costs are taken into account by the acquirer in the determination of the purchase price and are triggered by the business combination;
- they should be considered as unavoidable costs directly attributable to the combination.

As those costs are usually incurred within a limited time after the acquisition, they should be accounted for as an adjustment of the cost of acquisition at the date they meet the recognition criteria of IAS 37 (i.e. when the acquirer has developed the main features of the plan into a detailed formal plan). For those reasons, we recommend that an acquirer should recognise, as part of the cost of acquisition, a provision that was not a liability of the acquiree at the date of acquisition if, and only if, the acquirer has:

(a) at, or before, the date of acquisition, developed the main features of a plan that involves terminating or reducing the activities of the acquiree;

(b) by announcing the main features of the plan at, or before, the date of acquisition, raised a valid expectation in those affected by the plan that it will implement the plan to reorganise the acquiree; and

(c) <u>within 12 months of the date of acquisition, developed those main features into a detailed formal plan to terminate or reduce the activities of the acquiree</u>.

To avoid abuses and to ensure a complete transparency, a full disclosure of such provisions should be required and provisions that are not used in the manner or periods originally expected should be re-allocated to the cost of acquisition accordingly.

In addition, we draw the Board's attention to the fact that removing the exception in IAS 22 at this stage, would create incentives for structuring transactions in order to obtain the desired accounting treatment.

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?

We do not agree. We do not believe that identification and recognition criteria for the same contingent liabilities can be different in the standard on Business Combinations and in other standards dealing with the same elements.
Even if we agree with the Board that, since the contingency is known at the date of acquisition, the acquirer has effectively paid, an amount that takes into account a possible outflow, we, nevertheless, believe that the Board's proposal is not appropriate and that the Framework and IAS 37 criteria should be applied consistently.

As a result, a contingent liability should not be recognised when accounting for a business combination if, as of the date of acquisition:

- It does not satisfy the general recognition criteria of a liability in paragraph 83 of the Framework. Under such criteria, a liability should be recognised if (a) it is probable that any future economic benefit associated to the item will flow from the enterprise and (b) it has a cost or a value that can be measured with reliability; and
- It, therefore, does not meet the recognition criteria of IAS 37.14:
  (a) an enterprise has a present obligation (legal or constructive) as a result of a past event,
  (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation ; and
  (c) a reliable estimate can be made of the amount of the obligation.

In addition, it is often difficult and almost highly impossible to reliably determine the fair value of such contingencies. We are convinced that the probability of the different outcomes can only be quantified with a large part of subjectivity that would not concur to reflect market expectations.
Considering the fact that we disagree with the Board on the recognition rules of the contingent liabilities, we therefore oppose the Board's proposal to measure contingent liabilities after initial recognition, at fair value with change in fair value recognised in profit or loss. We believe that this accounting treatment would impair the objective of consolidated financial statements (as prescribed by the framework paragraph 12) to provide useful and relevant information about the financial position of an entity.

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 measurement 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?

We agree that measuring the identifiable assets acquired and liabilities assumed at their fair value at the acquisition date is the appropriate approach as we note that this is consistent with the new accounting for minority interests in the [draft] revised IAS 27.
However, we refer to our comments made to question 6 that identifiable assets and liabilities must satisfy the general recognition criteria of assets and liabilities.

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?

We agree that goodwill acquired in a business combination should be recognised as an asset even if it does not meet the definition of the framework.

We are convinced that the acquired goodwill is being consumed and that, if nothing is done to maintain it, it will deteriorate. In some cases, value of goodwill is maintained because of subsequent expenditure incurred by the company. Such expenditure are recognised as an expense and therefore amortisation of goodwill would double the charge. We believe that, the main reason for which the value of goodwill can be considered as being unchanged is because the acquired goodwill is gradually replaced by internally generated goodwill. In addition, acquirers expecting synergies with the acquired entities tend to mix their activities to a point where it becomes practically impossible to segregate acquired goodwill from acquirer's pre-combination goodwill.
However, although we have acknowledged that goodwill will deteriorate, we have severe doubts on the meaning of an arbitrary period of amortisation for those goodwill considered as having an indefinite useful life. Particularly, we believe that the amortisation approach over an arbitrary period reflects neither economic reality nor the consumption that is expected from that item.
We, therefore, agree with the Board's proposal that, in those cases (i.e. where there is a rebuttable presumption that goodwill is having an indefinite useful life) and provided a rigorous and workable impairment test could be devised, testing goodwill for impairment rather than amortising it systematically over an arbitrary defined useful life, would provide users with a more useful and relevant information.
We strongly insist on the pragmatic and practical aspect of the impairment test.

On the other hand, we believe that there are situations where goodwill must be considered as having a short term limited useful life. Examples of those situations are business combinations:

- where the main activity of the acquiree is based on a limited defined life by a contract ; or
- that consist in restricting the entry in the market by other competitors.

In such cases, amortisation represents a better practical approach to reflect goodwill consumption.

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

We disagree with the Board's proposal and Basis for Conclusions that lead to recognise immediately in profit or loss, the excess of the acquirer's interest in the net fair value of identifiable assets over the cost of the combination. We consider that, in addition to the list provided in paragraph 56, this excess may arise as a result of:

- a contingent liability of the acquiree that is not recognised as part of allocating the cost of acquisition in a business combination as it does not meet the recognition criteria of liabilities under IAS 37 (we refer to our comments to question 6).

- expected future losses and expenses that are identified in the acquirer's plan for the acquisition but which do not constitute identifiable liabilities at the date of acquisition.
  We disagree with the arguments in paragraph BC 112 of the Basis for Conclusions, which we consider, are inconsistent both with the fair value recognition principle of the acquiree's identifiable assets and liabilities as provided by paragraph 35 and with its definition. Under paragraph BC 112 of the Basis for Conclusion, if expectations of future losses and expenses have the effect of depressing the price that an acquirer is prepared to pay for the acquiree, the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities will be similarly affected. We do not support such an argument as the fair value of each identifiable asset acquired and liability assumed should be determined irrespective of the fact that these assets and liabilities have been acquired together. This principle has been confirmed in paragraph B15, which states that the expected use of the assets shall not be reflected in the fair value measurement. In such

case, future expected losses should not be taken into account in measuring individual assets fair value.

Moreover, we strongly believe that it is not appropriate to recognise immediately such negative goodwill in profit and to subsequently record the losses, which were identified and reliably measurable at the time of the combination.
Similarly, we consider that recognising the "negative goodwill" that arises as a result of the accounting for deferred tax assets (at an amount that is undiscounted in accordance with fair value guidance in Appendix B) immediately in profit, is not acceptable meanwhile future tax economic benefits are consumed and expensed as charges in the subsequent periods.

For these reasons, we believe that, in order to be consistent with our previous analysis, the amount of any excess identified in accordance with paragraph 55 of ED 3 should be accounted for in accordance with current paragraph 61 of IAS 22 to the extent it does relate to contingent liabilities or expected future losses.

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?

a) We support the proposal of the Board as we consider that the time proposed by draft IFRS seems apparently sufficient for completing the accounting for a business combination.

(b) we agree with the Board's proposal to recognise adjustments to the initial accounting for a business combination after that accounting is complete only as a correction of an error.

Comments following amendments to IAS 36

Question 1 – Frequency of impairment tests
Are the proposals relating to the frequency of impairment testing intangible assets with indefinite useful lives and acquired goodwill appropriate (see proposed paragraphs 8 and 8A and paragraphs C6, C7 and C41 of the Basis for Conclusions)? If not, how often should such assets be tested for impairment, and why?

The Board proposes that an entity shall test for impairment:

- intangible assets with an indefinite useful life at the end of each annual reporting period; and
- goodwill acquired in a business combination annually, ie at any time during the annual reporting period.

We agree with Board's proposal to require that the recoverable amount of goodwill as well as the recoverable amount of intangible assets with an indefinite useful life should be measured annually (with the exemption proposed in paragraph 20A for intangibles and 96 for goodwill). However we do not believe that the proposal to perform such an impairment test at the end of the reporting period for intangibles while proposing it at any time during the annual period for goodwill is acceptable.
We are basically convinced that performing an impairment test at a different date is impracticable for intangibles with an indefinite useful life and for goodwill allocated to the CGU to which the intangibles belongs. Those situations would automatically lead to a test being conducted at the end of the reporting period, which we believe, would be burdensome.
For that reason, we recommend that the Board propose, as it is already the case under US GAAP, that an impairment test for goodwill and intangibles with indefinite useful life should be performed (i) at the same date every year, and (ii) at a date that is not mandatory the end of the reporting period.

Question 2 – Intangible assets with indefinite useful lives
The Exposure Draft proposes that the recoverable amount of an intangible asset with an indefinite useful life should be measured, and impairment losses (and reversals of impairment losses) for such assets accounted for, in accordance with the requirements in IAS 36 for assets other than goodwill (see paragraphs C10- C11 of the Basis for Conclusions).
Is this appropriate? If not, how should the recoverable amount be measured, and impairment losses (and reversals of impairment losses) be accounted for?

We agree with the Board's proposal. However, in order to avoid accounting arbitrage we suggest that reversals of impairment losses recognised in respect of intangible assets with an indefinite useful life shall also be prohibited.

Question 3 – Measuring value in use
The Exposure Draft proposes additional guidance on measuring the value in use of an asset. Is this additional guidance appropriate? In particular:
(a) should an asset's value in use reflect the elements listed in proposed paragraph 25A? If not, which elements should be excluded or should any additional elements be

included? Also, should an entity be permitted to reflect those elements either as adjustments to the future cash flows or adjustments to the discount rate (see proposed paragraph 26A and paragraphs C66 and C67 of the Basis for Conclusions)? If not, which approach should be required?
(b) should the assumptions on which cash flow projections are based take into account both past actual cash flows and management's past ability to forecast cash flows accurately (see proposed paragraph 27(a)(ii) and paragraphs C66 and C67 of the Basis for Conclusions)? If not, why not?
(c) is the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use appropriate? If not, why not? Is it sufficient? If not, what should be added?

(a) We have no conceptual reason to disagree with the Board's proposal that an asset's value in use should reflect the elements listed in paragraph 25A of the draft. We also agree that an entity should be permitted to reflect those elements either as adjustments of future cash flows or adjustments to the discount rate.

(b) We agree that, in measuring value in use, cash flow projections shall be based on reasonable and supportable assumptions that take into account both past actual cash flows and management's past ability to forecast cash flows accurately. But we are concerned that no practical guidance has been proposed to clarify how this can be done. We, therefore, suggest the Board to give additional practical indications on this requirement.

(c) We agree with the appropriateness of the additional guidance proposed in Appendix B and we believe it sufficient.

Question 4 – Allocating goodwill to cash- generating units
The Exposure Draft proposes that for the purpose of impairment testing, acquired goodwill should be allocated to one or more cash- generating units.
(a) Should the allocation of goodwill to one or more cash- generating units result in the goodwill being tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format (see proposed paragraphs 73- 77 and paragraphs C18- C20 of the Basis for Conclusions)? If not, at what level should the goodwill be tested for impairment, and why?

(b) If an entity disposes of an operation within a cash- generating unit to which goodwill has been allocated, should the goodwill associated with that operation be included in the carrying amount of the operation when determining the gain or loss on disposal (see proposed paragraph 81 and paragraphs C21- C23 of the Basis for Conclusions)? If not, why not? If so, should the amount of the goodwill be measured on the basis of the relative values of the operation disposed of and the portion of the unit retained or on some other basis?

(c) If an entity reorganises its reporting structure in a manner that changes the composition of one or more cash- generating units to which goodwill has been allocated, should the goodwill be reallocated to the units affected using a relative value approach (see proposed paragraph 82 and paragraphs C24 and C25 of the Basis for Conclusions)? If not, what approach should be used?

(a) We do not agree with the Board's proposal that the allocation of goodwill to one or more cash generating units be made **at the lowest level** at which management monitors the return on the investment in that goodwill. Even if the return on investment is reviewed by management at a low level, we believe that allocating goodwill on that basis could lead to undue costs and efforts, as some cash generating units may present the same economic characteristics. For that reason, we support the FASB approach that consists in aggregating two or more components (the component may be regarded as a cash generating unit under IAS) of an operating segment, if they are businesses or constitute businesses with similar economic characteristics subject to regularly internal reporting review.
In addition, we encourage the Board to give further guidance on the meaning of the word "management" used in paragraph 74 of the Exposure Draft as it could lead to misinterpretations. Should we understand that "management" represents group management, segment management or subsidiary's management.?

(b) we agree with the Board's proposal that, when an entity disposes of an operation within a cash generating unit :

- the carrying amount of the operation disposed of includes the portion of the goodwill associated to that operation; and
- the amount of the goodwill disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained.

(c) We also agree with the Board's proposal to reallocate the goodwill to the units affected when an entity reorganises its reporting structure in a manner that changes the composition of one or more cash- generating units to which goodwill has been allocated. We also agree with the proposal to reallocate goodwill using a relative value approach.

Question 5 – Determining whether goodwill is impaired
The Exposure Draft proposes:
(a) that the recoverable amount of a cash- generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price (see proposed paragraphs 5 (definition of recoverable amount) and 85 and paragraph C17 of the Basis for Conclusions).
Is this appropriate? If not, how should the recoverable amount of the unit be measured?
(b) the use of a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash- generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount (see proposed paragraph 85 and paragraphs C42- C51 of the Basis for Conclusions). Is this an appropriate method for identifying potential goodwill impairments? If not, what other method should be used?
(c) that if an entity identifies goodwill allocated to a cash- generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see proposed paragraphs 85 and 86 and paragraphs C28- C40 of the Basis for Conclusions). Is this an appropriate method for measuring impairment losses for goodwill? If not, what method should be used, and why?

(a) We agree with Board's proposal that the recoverable amount of a cash- generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price.

(b) and (c) We agree with the IASB's proposed amendments that goodwill should be tested for impairment by first comparing the recoverable amount of the CGU to which goodwill can be allocated on a reasonable and consistent basis with the carrying amount of that CGU. However, we disagree with the other proposal of the Board that, if the recoverable amount of the CGU is less than its carrying amount, the amount of any impairment should be measured by comparing the implied value of the goodwill allocated to the CGU with its carrying amount:

- we consider that such requirement to determine individual fair values of all assets and liabilities in the CGU is impractical and not cost effective;
- a cash generating unit is defined as "the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets". If the test is performed at the level of a unit which is an indivisible economic unit, we believe it is inappropriate to measure individual assets in a context other than a part of such unit and that therefore the fair value of these assets is irrelevant in the context of the unit taken as whole.
- in some cases, impairment losses of goodwill could lead to write down the value of the unit below its recoverable amount.

We therefore recommend that rather than to require a comparison of the implied fair value of goodwill with its carrying value, an impairment test for goodwill should consist in comparing the recoverable amount of the cash-generating unit with the carrying value of the recognised net assets including goodwill. This comparison should be used to assess both whether there is an impairment loss and to determine the amount of that impairment.

We recommend that the Board retain current IAS 36 mechanism to calculate the amount of impairment loss that must be allocated to goodwill. In addition, we propose to allocate the remaining impairment loss first to reduce the carrying amount of intangible assets with indefinite useful life and secondly on the basis of the relative carrying amount of the other assets of the CGU.

Question 6 – Reversals of impairment losses for goodwill
The Exposure Draft proposes that reversals of impairment losses recognised for goodwill should be prohibited (see proposed paragraph 123 and paragraphs C62- C65 of the Basis for Conclusions). Is this appropriate? If not, what are the circumstances in which reversals of impairment losses for goodwill should be recognised?

We agree with the Exposure Draft's proposal that reversals of impairment losses recognised in respect of goodwill should be prohibited as:

- this would achieve convergence with US and many other national GAAP;
- we have accepted that internally generated goodwill could replace acquired goodwill only because it is practically impossible to segregate both goodwills. We believe that a reversal of an impairment related to goodwill would almost systematically be the recognition of internally generated goodwill and we, therefore, reject it.

Furthermore, in order to avoid any room for accounting arbitrage, impairment losses related to intangible assets with an indefinite useful life should not be reversed. It should be further noted that US GAAP do not allow reversals of such impairments and that the proposed approach does not achieve convergence.

Question 7 – Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives
The Exposure Draft proposes requiring a variety of information to be disclosed for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives (see proposed paragraph 134 and paragraphs C69- C82 of the Basis for Conclusions).
(a) Should an entity be required to disclose each of the items in proposed paragraph 134? If not, which items should be removed from the disclosure requirements, and why?
(b) Should the information to be disclosed under proposed paragraph 134 be disclosed separately for a cash- generating unit within a segment when one or more of the criteria in proposed paragraph 137 are satisfied? If not, why not?

(a) We do not support the Board's proposal that an entity should be required to disclose each of the items proposed in paragraph 134. We do think that the level of disclosure that would be required, should be helpful for users to understand corporate strategy and risk exposure of the entity. However, we believe that the objective of such detailed information should not be to provide every single parameter, that have been used for the impairment testing, for review or re-calculation. The arguments supporting our comments are the followings:

1.Irrelevancy of the level of information
We consider that disclosures required under paragraph 134 e (iv) and paragraph 134 e (v) are irrelevant at a segment level. Similarly we believe that providing the amount by which the aggregate of the recoverable amounts of the CGU units exceeds the aggregate of their amount (paragraph 134 d) is irrelevant at a segment level because such information would only be useful at the CGU level.
Furthermore, providing the discount rate without any other comment is also considered as irrelevant as uncertainty related to the timing and amount of future cash flows can either be reflected in the discount rate or directly in assumptions of the future cash flows.

2.Costs/benefits of the information required
Paragraph 134(e) and paragraph 134 (f) of IAS 36 require numerous information about the sensitivity. Those requirements would lead to give more detailed information the costs of which would not be outweighed by the information relevancy for the users of financial

statements. We also are convinced that an excessive level of disclosure could impair the understanding of the financial information given.

3.Confidential sensitivity of the information

Such requirements will lead to give to the users and to the competitors:

- Budgeted gross margins, commercial strategy, projects…
- Growth rate used to extrapolate cash flows beyond the period covered by business plans.
- The value of brands, formula…

In a competitive sector, disclosing such information about business plan data to the users and competitors, is not possible without revealing its own commercial strategy and without revealing its own technological advantages.

4.Risk additional liabilities

We believe that disclosing information that have been used by the management in its financial budget/forecast may give rise to possible class actions, claims, and other possible obligations and therefore may lead to additional liabilities.

We propose that an entity should be required to provide narrative information about the key assumptions used to measure recoverable amounts of CGU containing goodwill or intangible assets with indefinite useful lives and to explain the methodology used without given detailed numerous data. The aim is to explain how the estimations were reached rather than give each parameter.

(b) Considering our concern about the level of information we described above, we suggest the Board to delete § 137 b and § 137 c.

Comments following amendments to IAS 38

Question 1 – Identifiability
The Exposure Draft proposes that an asset should be treated as meeting the identifiability criterion in the definition of an intangible asset when it is separable or arises from contractual or other legal rights (see proposed paragraphs 10 and 11 and paragraphs B6- B10 of the Basis for Conclusions).
Are the separability and contractual/ other legal rights criteria appropriate for determining whether an asset meets the identifiability criterion in the definition of an intangible asset? If not, what criteria are appropriate, and why?

The Board is proposing, with a view of convergence to which we adhere, to take the recognition criteria used by the FASB: in order to qualify for separate recognition an intangible asset must:

(1) be capable of being separated from the acquiree and sold, transferred, licensed or exchanged; or
(2) arise from legal or contractual rights (regardless of whether those rights are transferable and separable from the acquiree or from other rights and obligations).

In addition, we suggest the Board to clarify the meaning of control where it relates to certain intangible assets such as non contractual customer relationships that have been identified in a business combination: Under paragraph 43 of ED3 and paragraph B4 of the Draft Illustrative Examples, such items can be recognised as intangible assets because they are separable although they do not arise from legal or contractual rights, whereas paragraph 15 of IAS 38 (not modified by the exposure draft) indicates that “in the absence of legal rights to protect, or other ways to control, the relationships with customers (….), the enterprise usually has insufficient control over the economic benefits from customer relationships to consider that such items (portofolio of customers, market shares, customer relationships) meet the definition of intangible assets”.

Question 2 – Criteria for recognising intangible assets acquired in a business combination separately from goodwill
This Exposure Draft proposes clarifying that for an intangible asset acquired in a business combination, the probability recognition criterion will always be satisfied and, with the exception of an assembled workforce, sufficient information should always exist to measure its fair value reliably (see proposed paragraphs 29- 32 and paragraphs B11- B15 of the Basis for Conclusions). Therefore, as proposed in ED 3, an Exposure Draft of a proposed International Financial Reporting Standard Business Combinations , an acquirer should recognise, at the acquisition date and separately from goodwill, all of the acquiree’s intangible assets, excluding an assembled workforce, that meet the definition of an intangible asset (see proposed paragraphs 36, 43 and 44 of ED 3).
Do you agree that, with the exception of an assembled workforce, sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination? If not, why not? The Board would appreciate respondents outlining the specific circumstances in which the fair value of an intangible asset acquired in a business combination could not be measured reliably.

Probability criterion

We are opposed to the Board's unsupported proposal to consider that, where an intangible asset is acquired in a business combination, the probability recognition criterion will always be satisfied (with the exception of an assembled workforce) and sufficient information will always exist to measure its fair value reliably.
We disagree with the Board's view developed in paragraph B13 of the Basis for Conclusion that "the effect of probability is reflected in the fair value measurement of an intangible asset" and that "the probability recognition criterion will always be satisfied for intangible assets acquired in business combinations". All expenses recognised in the income statement are presumably paid at their fair value, and have been incurred because management expects future economic benefits; however they are charged to income.
We see no conceptual reason to create discrepancies with the existing framework's provisions of paragraph 89 that provide that "an asset is recognised when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably".

We believe that, if the Board decides that the FASB approach to recognition of intangibles (probability is not a recognition criteria but is used to estimate the fair value) represents an opportunity for convergence to a superior solution, then, it should not only amend IAS 38 but include such project in a wider concept project based on asset recognition.

We would like to point out the inconsistency of paragraph 32 of ED3 with paragraph BC 67 of the Basis for Conclusion, in respect of the recognition as an intangible asset of an in process research and development project. The IPRD project would be recognised as an intangible asset under paragraph BC 67 but not under paragraph 32 because it appears more likely than not that no future economic benefits will flow to the acquirer.

Reliable measure of the fair value

We agree that many intangibles acquired in a business combination could be identified separately from goodwill and that distinguishing between identifiable intangibles and goodwill is meaningful and useful for users.
However, although we agree that many intangible assets can be identified separately from goodwill, we are unsure about the ability to value those identifiable intangible assets mainly because of the potential cost ineffectiveness of such measurement and because of the arbitrary nature of some intangible valuations.

We believe that reliable measurement should be continued as one of the criteria to recognise an intangible asset separately from goodwill. In our opinion, the considerable emphasis placed by existing accounting standards worldwide on the need for reliable measurement of intangible assets much more than other assets, is a clear indication that the fair value estimates for some intangible assets are far more subjective and arbitrary than the fair value measurements of other assets. IAS 38 (paragraph 28 which has been deleted in the

Exposure Draft) clearly states that "judgment is required to determine whether the cost (i.e. fair value) of an intangible asset acquired in a business combination can be measured with sufficient reliability for the purpose of separate recognition".

We agree that quoted market prices in an active market provide the most reliable measurement of fair value but also, as is stated in IAS 38 paragraph 67 (paragraph 73 in the Exposure draft), that it is uncommon for an active market to exist for an intangible asset. We, therefore, cannot accept the statement made by the Board in the exposure draft that the fair values of intangible assets satisfying the legal / contractual or separability recognition criteria will, with the exception of an assembled workforce, be reliably measurable. Finally, we would expect, as a minimum, that the Board indicate, for each item in the indicative list of recognisable intangible assets, how the fair value of such item can be reliably measured.

Question 3 – Indefinite useful life
The Exposure Draft proposes to remove from IAS 38 the rebuttable presumption that an intangible asset's useful life cannot exceed twenty years, and to require its useful life to be regarded as indefinite when, based on an analysis of all of the relevant factors, there is no foreseeable limit on the period of time over which the asset is expected to generate net cash inflows for the entity (see proposed paragraphs 85- 88 and paragraphs B29- B32 of the Basis for Conclusions).
Is this appropriate? If not, under what circumstances, if any, should an intangible asset be regarded as having an indefinite useful life?

We agree with the Board's definition that an intangible asset should be regarded as having an indefinite useful life when, based on an analysis of all the relevant factors including the intent and the ability of management to maintain such asset, there is no foreseeable limit on the time over which the asset is expected to generate net cash inflows for the entity. We recommend that the Board also indicate after such definition that, generally, an intangible asset has an indefinite useful life, because it has a capability of being renewed or regenerated and gives guidance on under which circumstances such capability can be determined.

Question 4 – Useful life of intangible asset arising from contractual or other legal rights
The Exposure Draft proposes that if an intangible asset arises from contractual or other legal rights that are conveyed for a limited term that can be renewed, the useful life shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost (see proposed paragraphs 91 and 92 and paragraphs B33- B35 of the Basis for Conclusions).
Is this an appropriate basis for determining the useful life of an intangible asset arising from contractual or other legal rights that are conveyed for a limited term that can be renewed? If not, under what circumstances should the useful life include the renewal period(s)?

We see no conceptual reason to disagree with the Board's proposal. However, some intangible assets that arise from contractual or legal rights (such as patent, brand name, etc) may have a residual value at the end of the renewal period while we understand from paragraph 96 that residual value shall be assumed to be zero, unless there is a commitment

by a third party to purchase it, or an active market that is likely to exist at the end of the asset's useful life. We are convinced that such a residual value is taken into account in the purchase price at the date of the business combination.
For that reason, we suggest that the non-contractual period during which the intangible asset will continue to generate future economic benefit, should be taken into account in determining the useful life of that intangible asset.

Question 5 – Non- amortisation of intangible assets with indefinite useful lives
The Exposure Draft proposes that an intangible asset with an indefinite useful life should not be amortised (see proposed paragraphs 103 and 104 and paragraphs B36- B38 of the Basis for Conclusions). Is this appropriate? If not, how should such assets be accounted for after their initial recognition?

We agree that an intangible asset with an indefinite useful life (whether or not acquired in a business combination) should not be subject to the amortisation requirements in IAS 38 but should be tested for impairment following the same procedures as goodwill. Any difference with the impairment of goodwill could lead to accounting arbitration.

In addition, we note that the Board has proposed that intangible assets with indefinite useful lives should continue to be permitted to be carried at reevalued amounts in accordance with IAS 38, when such reevaluation will not be allowed for goodwill. In order to avoid any room for accounting arbitrage, we believe that intangible assets with indefinite useful lives should not continue to be permitted to be carried at reevalued amounts.