

EFRAG Board
Jean-Paul Gauzès
35 Square de Meeûs
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Belgium

La Défense, January 29, 2018

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

Dear Mr Gauzès,

MAZARS is pleased to comment on the EFRAG Discussion Paper "*Goodwill impairment test: can it be improved?*".

We welcome the EFRAG's initiative to propose improvements to impairment tests, which will be valuable inputs to the current IASB project on impairment. We also note that these proposals have been developed in the framework of an "impairment only" approach. Following the *Post Implementation Review* of IFRS 3 – *Business Combinations*, the IASB decided not to change its model, and it is key that any initiative fits in the model chosen by the IASB.

Additional guidance on allocation

We share the opinion of EFRAG that any amendment of IAS 36 should reduce complexity and achieve a better costs/benefits balance while enhancing the relevance of impairment tests and helping impairment losses being recognized timely.

However we wonder whether the proposals in the first part of the Discussion Paper regarding the allocation of goodwill are relevant to meet all these objectives.

It is true that neither IAS 36 nor IFRS 3 provide much guidance on how to allocate goodwill. But the proposals in the discussion paper appear to be mainly anti-abuse clauses with the aim of avoiding opportunistic allocations of goodwill or reorganizations of CGUs (§ 2.7.a) of the DP).

We strongly believe that a principles-based approach does not fit with anti-abuses provisions. Moreover, we question the relevance of the different proposals:

- They would add complexity to the accounting for goodwill since companies are not currently required to measure the headroom in pre-existing CGU or the headroom after goodwill allocation. Besides, we think it would have been fair to indicate in the table on page 6 that those proposals would lead to an increased complexity;
- Both proposed methods for allocating goodwill to CGUs may lead to the recognition of a Day-1 loss, which is questionable when it relates to the accounting for an arm's length transaction. The second proposal would even prevent an entity from allocating goodwill to a pre-existing CGU that will benefit from synergies of the acquisition if none of the acquired assets are assigned to that CGU. We do not consider it be relevant;
- The relevance of the pre-acquisition headroom method for impairment testing, by increasing the carrying amount of the CGU by its pre-acquisition headroom (§ 2.15 of the DP), is highly questionable: not only is it not clear on how to determine the pre-acquisition headroom taking into account several acquisitions at different dates – and make it workable on a continuous basis –, but a decrease in the headroom may be related to the internally generated goodwill of the pre-existing business rather than to the acquired goodwill.

Adding information on composition of goodwill

We doubt that the information to be provided under Suggestion 2 would be useful on a long term basis. Such disclosure is already required by IFRS 3 regarding the business combinations that occurred during the financial year.

Having this information updated year after year, acquisition after acquisition, reorganization after reorganization, would be costly without clearly identified benefits to users.

We therefore do not support EFRAG's proposals regarding the accounting for goodwill and additional disclosures.

We believe that some other proposals in the Discussion Paper represent quick wins in simplifying impairment tests without diminishing their relevance and effectiveness.

Introducing a “Step Zero” test

Many entities consider annual impairment tests as a good exercise that is useful in many instances for management purposes. The main merit of such “Step Zero” approach would be to place IFRS entities within the same level playing field as US GAAP entities. Nevertheless, the likelihood of impairment loss threshold for avoiding the impairment test under US GAAP (“probable”) is very different from that proposed by EFRAG (“remote”). We believe that the US GAAP threshold is too easily reachable, and may therefore weaken the effectiveness of impairment testing.

Taking that into account, we consider it impossible to keep a same level playing field between IFRS and US GAAP entities, and as a consequence we do not support the introduction of a “step zero” approach.

We note that IAS 36.99 already allows entities not to perform a detailed impairment test in some circumstances. A solution to provide a relief to preparers would be to smoothen the criteria for applying that paragraph.

Single calculation approach

The Discussion Paper proposes to remove from the definition of “Recoverable Amount” the Fair Value Less Costs of Disposal. We agree that the calculation of the Value In Use is the method that is the most used by entities when performing impairment tests. Nevertheless we do not see in EFRAG’s proposal an actual simplification of impairment testing, and we believe that preparers should be able to continue to justify that a CGU needs not to be impaired on the basis of a FVLCD exceeding its book value.

Value In Use calculation

We agree with EFRAG’s proposals to simplify the calculation of VIU by aligning future cash flows taken into account with management’s actual business plans. It means that any restructuring, whenever decided or highly contemplated by the management, should be taken into account (the expected costs of restructuring together with the improved post-restructuring cash flows) in calculating the VIU. Planned investments, or other assumptions made by the management for its business plan, should be taken into account as well.

Those changes would reduce costs, since entities would have to build one single business plan of the CGU for management and impairment purposes. At the same time we believe they would enhance the relevance of the impairment test, which would be based on how the entity intends to run the business.


Regarding the use of a post-tax discount rate, we think it should be allowed, provided that both the cash flows contemplated and the carrying amount of the CGU tested for impairment remain consistent with that assumption. In other words, if a post-tax discount rate is used, the VIU shall consider post-tax cash flows, and the carrying amount of the CGU shall include current and deferred tax assets and liabilities.

Goodwill accretion method

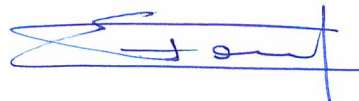
We totally disagree with EFRAG's proposed "goodwill accretion method". This method is based on the assumption that any acquired goodwill is consumed overtime. That assumption should lead to the recognition of an amortization expense that does not fit with the IASB's impairment-only model. Moreover, we are convinced that such "notional interest expense" does not portray internally generated goodwill at all. Let's assume that the management's estimates of the future cash flows do not vary from one year to another: in that particular situation, no goodwill is generated internally, and the Value In Use of the CGU is maintained. According to the proposed "goodwill accretion method", an impairment loss would be recognized, the relevance of which is highly questionable.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



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