July 6, 2016

Financial Accounting Standards Board
Technical Director
File Reference No. 2016-230
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
United States

Dear Sir/Madam:

Re: Comments on the Board’s Exposure Draft Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment

Hydro-Québec is a major North American producer, transmission provider and distributor of electricity, operating mainly in the province of Québec, Canada. Its sole shareholder is the Québec government. In Québec, the transmission and distribution of electricity are regulated by the Régie de l’énergie, which sets rates on the basis of cost of service plus a reasonable return on the rate base.

On behalf of Hydro-Québec, I thank you for giving us the opportunity to comment on the Board’s Exposure Draft entitled Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment.

We support the Financial Accounting Standards Board’s objective of simplifying how an entity is required to test goodwill impairment by removing Step 2 from the goodwill impairment test. Attached are our detailed responses to the questions in the exposure draft.

Should you wish to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Lise Croteau, FCPA, FCA
Executive Vice President and Chief Financial Officer

Encl.
Proposed Accounting Standards Update
Intangibles – Goodwill and Other (Topic 350)
Simplifying the Accounting for Goodwill Impairment

Question 1: Do you agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test? Why or why not?

We agree with the removal of Step 2 from the impairment test even though this step provides a higher degree of accuracy in determining the amount of goodwill impairment.

Question 2: Should the requirement to perform Step 2 of the current goodwill impairment test be retained as an option? Why or why not? If the use of Step 2 is optional, should an entity be allowed to apply that option by reporting unit or should it be a policy election at the entity level applicable to all reporting units?

We are of the opinion that the one-step test should be a standard requirement and that the two-step impairment test should not be an option because comparability across companies would be reduced.

However, should the two-step impairment test be available to companies, we think that it should be in the form of an accounting policy election applicable to all reporting units to ensure consistency in application as well as comparability, making it easier for users of financial statements to understand.

Question 3: Do you agree with the proposed amendments to require all entities to apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts? Why or why not? If not, what would be the suggested goodwill impairment test for reporting units with zero or negative carrying amounts?

We agree with standardizing the application of impairment tests, including reporting units with zero or negative carrying amounts, in view of the objective sought to reduce the complexity and costs of measuring goodwill impairments.

Question 4: Should entities with reporting units with zero or negative carrying amounts be required to disclose the existence of those reporting units and the amount of goodwill allocated to them? Why or why not? Are there additional disclosures that would provide useful information to users of financial statements?

We are of the opinion that it is relevant to provide users of financial statements with information about reporting units with zero or negative carrying amounts, for which goodwill has been recognized, because research has shown that impairment testing does not often lead to the recognition of impairment. Therefore, disclosure in a financial statement note will allow users of financial statements to measure the value of goodwill for the respective reporting units.

Question 5: Should the guidance on deferred income tax considerations when determining the fair value of a reporting unit outlined in paragraphs 350-20-35-25 through 35-27 and illustrated in Example 1 and Example 2 be retained, or should this Subtopic rely on the fair value guidance in Topic 820, Fair Value Measurement? If the guidance on the tax structure is retained, what, if any, amendments are necessary to address the potential difference in the impairment charge calculated under the proposed amendments, depending on which tax structure is used in calculating the fair value of the reporting unit?

We are of the view that the standardization of the treatment of deferred income taxes must be retained as it is presented in the current guidance.
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Question 6: Do you agree that the proposed guidance to remove Step 2 from the goodwill impairment test should be applied prospectively? Should there be specific transition guidance for companies that previously adopted the goodwill accounting alternative for private companies in current GAAP but decide to adopt this proposed guidance after it becomes effective?

We agree that these amendments should be applied prospectively.

Question 7: How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

We are of the view that the adoption of these amendments should not require much time because it is simply a matter of eliminating analysis procedures and no additional requirement is necessary. As a result, the adoption of these amendments would not require significant changes to measurement processes and systems. The time needed to apply these amendments should be the same for both private and public business entities.

Early adoption should be permitted.

Question 8: Would the proposed amendments meet the Board’s objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of financial statements? Why or why not?

We think that the proposed amendments meet the objectives of reducing costs and simplification while maintaining the quality of information provided to users of financial statements because the amendments basically consist of optimizing an existing process.

Question 9: Are there additional changes that should be made to the subsequent accounting for goodwill to meet this objective, including changes that might be considered in Phase 2 of the Board’s project?

We encourage the Board to consider permitting amortization of goodwill.

Question 10: Are there any unintended consequences resulting from the improvements to the Overview and Background Sections of the Subtopics (discussed in Part II of the proposed amendments)?

We are of the view that there should not be any unexpected consequences.