October 7, 2019

Financial Accounting Standards Board
Technical Director
File Reference No. 2019-720
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
USA

Dear Technical Director:

Subject: Comments on the Board’s Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill (File Reference No. 2019-720)

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.

On behalf of Hydro-Québec, I’d like to thank you for giving us the opportunity to comment on the Board’s Invitation to Comment entitled Identifiable Intangible Assets and Subsequent Accounting for Goodwill. Attached are our responses to select questions in this Invitation to Comment.

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

Sincerely,

Nadine Thibodeau, CPA, CA
Director – Financial and Management Accounting Expertise

Encl.
Section 1: Whether to Change the Subsequent Accounting for Goodwill

Question 3. On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

We do not support goodwill amortization with impairment testing. In rate-regulated industries, when there is a business combination, there often is a significant goodwill since the majority of the assets acquired are in the rate-base. Amortizing goodwill would have a material negative impact on earnings. These negative impacts may also discourage future acquisition activities by entities in rate-regulated industries.

Question 4. If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you did not select certain characteristics.

a. A default period
b. A cap (or maximum) on the amortization period
c. A floor (or minimum) on the amortization period
d. Justification of an alternative amortization period other than a default period
e. Amortization based on the useful life of the primary identifiable asset acquired
f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
g. Management’s reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

We support the use of management’s reasonable estimate if the Board were to decide to amortize goodwill. This estimate could consider some parameters like the useful life of the primary identifiable asset acquired, the useful life of acquired processes, and expected synergies, depending on the business activities acquired. This method will provide financial statements users with information about the period of time the entity expects the acquisition to pay back the invested capital.

An amortization period based on the weight-average useful lives of identifiable assets could also be appropriate, but it would have almost the same effect than an asset acquisition.

We believe that a default period or a cap or floor period will not faithfully represent the economic transaction for stakeholders. These methods may be cost-effective and comprehensive, but we believe an arbitrary solution cannot be a better solution than one that takes into account the economics of the business acquisition.

Question 6. Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.

Yes. We believe that the justification of the amortization period will allow equity investors to understand the transaction basics. However, there may be sensitive information that the entity would not want to disclose in the financial statements.
**Invitation to Comment**

*Identifiable Intangible Assets and Subsequent Accounting for Goodwill*

**Question 9.** Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually? Please explain why in your response.

We strongly support removing the requirement to assess goodwill for impairment at least annually for cost-effective reasons.

**Question 12.** The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering “yes” or “no” to the questions in the table below. Please explain your response.

<table>
<thead>
<tr>
<th></th>
<th>Do You Support the Indicated Model?</th>
<th>Do You Support Requiring an Impairment Assessment Only upon a Triggering Event?</th>
<th>Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment only</td>
<td>Yes</td>
<td>Yes, we support this view.</td>
<td>Yes, at the operating segment level.</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

**Section 4: Comparability and Scope**

**Question 26.** To what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.

We believe the FASB and the IASB should work together on the subsequent accounting for goodwill. Convergence is important for entities like Hydro-Québec, who have to report both under GAAP and under IFRS.

In Canada, some utilities are reporting under GAAP while others are reporting under IFRS. If the FASB decides to adopt an amortization model but the IASB continues with the impairment model, it will reduce the comparability between entities in the utility industry in Canada and worldwide. Financial statement users will need to adjust the reported data to make comparison. Also, entities reporting both under GAAP and IFRS will have to continue to incur the costs associated with the impairment model.
Invitation to Comment

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Question 27. Please indicate the sources of comparability that are most important to you regarding goodwill and intangible assets. Please select all that apply and explain why comparability is not important to you in certain cases.

a. Comparability among all entities reporting under GAAP (one requirement for PBEs, private business entities, and not-for-profit entities)

b. Comparability among all PBEs reporting under GAAP

c. Comparability among all private business entities and all not-for-profit entities reporting under GAAP

d. Comparability among all PBEs reporting under GAAP and PBEs reporting under IFRS.

We believe comparability among all PBEs reporting under GAAP (item (b) above) and with PBEs reporting under IFRS (item (d) above) is important.