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Adm/vm

CAP GEMINI SERVICE

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Sir Bryan Carlsberg
Secretary General
IASC
Fleet Street 167
London EC4A 2ES
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Dear Sir,

I refer to the letter of the « Association pour la participation des entreprises françaises à l'harmonisation comptable internationale » (association of French companies for the harmonisation of international accounting principles) concerning the exposure draft E55 (exhibit 1).

As you may know, Cap Gemini Group is Europe's leading Management Consulting and IT Services business and has followed the accounting practice prescribed by the IASC for more than 10 years. We consequently have a keen interest in the related deliberations.

Over the past 10 years, Cap Gemini Group has made several acquisitions and its intangible assets now represent some FRF 9 billion. The accounting treatment of business combinations, intangible assets and impairment reviews is therefore a critical aspect of our financial reporting.

We fully agree with the contents of the above-mentioned letter and would like to stress the rationale applied by Cap Gemini Group.

Acquisitions are assessed on the basis of two major components commonly used by valuation experts for market survey purposes :

- commercial visibility (in general, reputation and market shares),
- proprietary know-how (methods, delivery capabilities, skills).

The CNC (French national accounting committee), agreeing with the above approach, issued a statement in January 1990 authorising the recognition of intangible assets, such as commercial network, market shares, customer base and so forth.

Cap Gemini has elected to include the commercial aspect in « Market share », which is not amortised under French generally accepted accounting principles. Proprietary know-how is not recognised separately, but is instead implicitly included in goodwill and therefore amortised over 40 years.

In light of the foregoing, it is clear that a common understanding of classification criteria is essential to presenting a true and fair view of assets and to avoiding the blanket classification of all items under goodwill, which should continue to be used to record residual value.

Under existing accounting principles, internally-produced tangible assets may be capitalised, but, paradoxically, the same treatment is not allowed for intangible assets. Given the highly evolutionary nature of the IT business, the cost of continuous development (training, knowledge, service offering, etc.) enhances, or at the very least, maintains the value of investments. It would therefore be more logical to capitalise costs related to the development of internally-produced intangible assets, as their annual amount is largely higher than the corresponding amortisation charge. Furthermore, the accumulation of amortisation expense with costs incurred to maintain the value of intangible assets is not an economically viable option.

Straight-line amortisation appears inappropriate, given that the related development costs cannot currently be capitalised. If non-amortisation is chosen, impairment testing becomes the tool for assessing the economic value of intangible assets.

We believe, therefore, that the statements addressing goodwill, intangible assets and impairment testing should be considered and approved in concert. As valuation methods depend on the nature of assets, the appropriate treatment (depreciation, amortisation, impairment testing) can be identified only when the asset itself has been clearly classified.

I thank you for your kind attention and remain

Yours faithfully,



Alain de MARCELLUS
Deputy Chief Financial Officer

Copy « Association pour la participation des entreprises françaises à l'harmonisation comptable internationale »

Miss Caroline VAN TROEYEN

Mr. Jean KELLER