BROWN SMITH WALLACE LLC
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May 13, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2011-180

To Whom It May Concern:

This letter has been written in response to the request for comments on the Exposure Draft of a proposed Accounting Standards Update (ASU) of Topic 350, *Intangibles-Goodwill and Other*, which was published on April 22, 2011 by the Financial Accounting Standards Board (FASB). The responses provided below are solely my own and do not necessarily reflect the opinion of other members of Brown Smith Wallace, LLC.

Question 1: Please describe the entity or individual responding to this request. For example:
a. Please indicate whether you primarily are a preparer, user, or auditor of financial statements or, if other, please specify.
b. If you are a preparer of financial statements, please indicate whether your entity is public or nonpublic and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
c. If you are an auditor, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, nonpublic entities, or both.
d. If you are a user of financial statements, please indicate in what capacity (for example, investor, analyst, or rating agency) and where in the capital structure you are most focused (for example, debt or equity).

Response 1: I am a member of Brown Smith Wallace LLC, a public accounting and consulting firm with multiple offices in the United States. I provide valuation services to both public and nonpublic entities. In addition, I provide assistance to Brown Smith Wallace's audit practice related to the audit of fair value based measurements by the firm's audit clients, which includes nonpublic entities.

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Therefore, my comments are based upon my role as a valuation specialist providing professional services to both valuation clients as well as audit clients.

Question 2: For preparers, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why.

Response 2: Not applicable.

Question 3: For preparers, do you expect your entity will choose to perform the qualitative assessment proposed in the amendments, or will your entity choose to proceed directly to performing the first step of the two-step impairment test? Please explain.

Response 3: Not applicable.

Question 4: For auditors, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why. Does your response differ based on whether the entity is public or nonpublic?

Response 4: No, I do not believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance. I believe that this is particularly true for nonpublic entities.

In discussing the carryover option and factors considered before recommending the elimination of the carry forward option, FASB noted that preparers indicated that they frequently were not able to carry forward a fair value determination from a prior year for Step One goodwill impairment testing. As indicated in paragraph BC12 of the Exposure Draft,

> *"for various reasons, many public and nonpublic entities have not used the carry forward option provided in paragraph 350-20-35-29. Several preparers stated that they have been unable to satisfy the carry forward criteria, and others stated that their public accounting firms often take exception with their intention to carry forward a prior-year fair value calculation."*

The implication from the above paragraph is profound for the potential usefulness of the qualitative assessment under the proposed ASU. Preparers have indicated that the carryover option, which again is based upon a qualitative assessment of various factors and their impact on a prior fair value determination, has not been used more frequently due to two factors. First, preparers completed the qualitative assessment and concluded that it would not be appropriate to carryover a prior fair value conclusion. Second, even if preparers conclude through a qualitative assessment that it should be able to carry forward a prior fair value determination, audit firms are not willing to rely upon the conclusions of the qualitative assessment.

Based upon the above, I pose the following question: why would the proposed qualitative assessment be able to replace a quantitative assessment? If preparers have not been able to satisfy the current qualitative assessment factors to support a carry forward of a prior fair value determination, then it does not seem likely that preparers will be more successful under the proposed ASU merely by being able to use an expanded list of qualitative assessment factors to avoid performing a quantitative assessment. In addition, if audit firms were not comfortable with a carry forward of prior fair values based upon a qualitative assessment, then it does not seem likely that they would be more comfortable with a qualitative assessment in place of performing a quantitative assessment. Presumably, based upon current GAAP, most public accounting firms could have developed a list of expanded qualitative examples to consider under the carry forward option. Therefore, the availability of an expanded list of qualitative examples under the proposed ASU would not appear likely to significantly reduce the reluctance of an auditor to rely upon a preparer's qualitative assessment to document the likelihood that carrying value exceeds fair value under the Step One goodwill impairment test.

A goodwill impairment assessment that does not meet the documentation requirements of the preparer's independent audit firm is of little value to a preparer. From an audit perspective, a qualitative assessment may be viewed as more difficult to audit and, therefore, less credible audit evidence. In addition, it may be challenging to structure audit procedures to test a qualitative assessment when quantitative assessments have been the norm for goodwill impairment testing for audit clients. Whether done by the preparers, valuation specialists, or by the auditors during their audit work, at some point calculations are likely to be done to estimate fair value (or a reasonable range of fair values) of a reporting unit to be compared against the carrying value. It seems that most audit firms would be more comfortable reviewing such quantitative documentation rather being the sole source of a quantitative assessment.

Therefore, the proposed expanded list of factors would not appear to significantly improve the ability of preparers to document a qualitative assessment related to the likelihood of Step One goodwill impairment or increase the likelihood that auditors would rely upon a qualitative assessment as audit evidence in the place of a quantitative assessment. Alternatively, if auditors determine that they must create significant additional quantitative support to test the qualitative assessment conclusion, then higher audit fees would appear to be the likely result. In any case, I do not believe that the result would be a meaningful reduction in the cost or complexity of compliance with goodwill impairment testing requirements.

Question 5: For users, do you believe that the qualitative approach for testing goodwill for impairment will delay the recognition of goodwill impairment losses or affect how you evaluate goodwill reported in the financial statements? If yes, please explain.

Response 5: Not applicable.

Question 6: Do you agree that the proposed examples of events and circumstances to be assessed are adequate? If not, what changes do you suggest?

Response 6: No, I do not think that the proposed examples of events and circumstances are adequate to permit a qualitative assessment in most circumstances. In addition, I believe that the ability to quantify the value impact of these factors is difficult to do without performing a quantitative analysis is more challenging than anticipated.

In addition, for situations with zero or negative carrying value, the factors impacting the "likelihood of carrying value exceeding fair value" of a reporting unit covered under proposed ASC 350-20-35-3C are not identical to the factors impacting the existence of goodwill impairment. Specifically, it is possible to have the carrying value of a reporting unit exceed fair value and yet have the carrying value of goodwill be less than fair value (or no goodwill impairment). In addition, it is possible to have the carrying value of a reporting unit be less than fair value and yet have the carrying value of goodwill exceed fair value (or goodwill impairment). Therefore, in order to provide more complete guidance as to a qualitative assessment regarding goodwill impairment, which is measured as the excess the carrying value of goodwill over its fair value, FASB would also need to include Step Two factors that impact the implied fair value of goodwill (as opposed to the fair value of a reporting unit). Examples of Step Two factors impacting the fair value of goodwill that are not included in the Step One factors include the below.

- <u>Assets on balance sheet that have a fair value above carrying value</u>. Examples include elements of inventory such as work-in-process and finished goods, fully depreciated but still operational machinery and equipment, etc.
- <u>Assets on balance sheet that have a fair value below carrying value</u>. Examples include property and equipment and other intangible assets that have fair values below carrying value but do not fail the impairment tests.

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- Current liabilities on the balance sheet that have a fair value below carrying value. Examples include deferred revenue.
- Previously unrecognized intangible assets. Examples include internally-developed intangible assets such as brands, patented technology, customer relationships, in-process research and development assets, etc.

Question 7: Do you agree that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear? If not, how can the guidance be improved?

Response 7: I disagree – I do not believe that the guidance is clear. For instance, as discussed under Response 6, I do not believe that the guidance about how an entity should assess relevant events or circumstances is clear for instances where a reporting unit has zero or negative carrying value. An assessment of the factors related to whether or not carrying value exceeds fair value under Step One are not the same factors related to whether or not goodwill is impaired under Step Two.

Question 8: Do you agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities? If not, please explain why.

Response 8: I agree that any impairment testing requirements should be applicable to both public and nonpublic entities.

Question 9: Do you agree with the proposed effective date provisions? If not, please explain why.

Response 9: I do not have an issue with the proposed effective date.

If you have any questions regarding the above, please do not hesitate to email me at bpursel@bswfas.com or call me at 858-646-3093. Thank you in advance for consideration of my comments.

Respectfully Yours,

Brad Pursel

Brad Pursel, CPA/ABV, CFA, ASA
Member