

The Association for Accountants and Financial Professionals in Business

June 1, 2011

Ms. Leslie Seidman, Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Proposed Accounting Standards Update, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment (File Reference No. 2011-180)

Dear Leslie:

The Financial Reporting Committee of the Institute of Management Accountants ("FRC") is writing to provide its views on the Proposed Accounting Standards Update, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment. Overall, we support the Board's efforts to simplify how an entity is required to test goodwill for impairment by permitting an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Further, we believe that a similar approach could and should be employed in the assessment for impairment of other intangible assets with indefinite lives. We would also like to see the International Accounting Standards Board ("IASB") consider the provisions of the proposed standard in a future amendment of IAS 36.

The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts¹. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

In summary, we support an entity having an option to bypass the annual two-step impairment review process if the results of a qualitative assessment indicate it is more likely than not that the fair value of the entity's reporting unit(s) exceeds its carrying amount, including goodwill. While ASC 350-20-35 does not explicitly require that an entity commission an external valuation engagement to determine the fair value of a reporting unit, in practice this is what often takes place. Accordingly, in situations where a reporting unit's fair value has recently been determined to exceed its carrying value, and no significant adverse changes have occurred since then, it will be more cost effective for an entity to apply the qualitative assessment to comply with the annual testing requirements of ASC 350. Further, we agree with the Board's decision to permit an entity to skip the performance of the qualitative assessment and proceed directly to the quantitative assessment in a particular period. This option provides an entity with increased flexibility when the entity determines it would like to conduct a quantitative assessment without the burden of having to document why it may have not elected to conduct one in prior periods.

¹ Additional information about the IMA Financial Reporting Committee can be found at www.imafrc.org.

While we support the Board's proposed improvements to the goodwill impairment testing model, we nevertheless believe the proposed standard could be improved if its scope were expanded to apply to all indefinite-lived intangible assets that are required to be tested for impairment annually under ASC 350. We recognize that the values of indefinite-lived intangible assets must be supportable based on the assets' own cash flows. However, we believe that in many cases a qualitative assessment using the factors set forth in the exposure draft could more expeditiously lead an entity to a conclusion that its indefinite-lived intangible assets are not impaired without having to incur the costs of a quantitative assessment. Further, in some cases, indefinite-lived intangible assets are permitted to be combined into a single unit of accounting for purposes of assessing impairment (for example, if such a grouping provides the highest and best use of the assets or if the assets were purchased in order to be used together to enhance a single asset). In such situations, while the intangible assets remain identifiable, the grouped asset possesses characteristics that similar to goodwill. Extending the scope of the proposed standard to indefinite-lived intangible assets would extend these practice improvements into a related area of the accounting literature and further enhance cost efficiencies that are expected to result from applying the proposed standard.

The FRC recognizes that the proposed standard does not improve convergence with International Financial Reporting Standards ("IFRS"). Nevertheless because of the practice improvements that are expected to result from its application, we support its issuance. In addition, we are hopeful that the IASB also embraces the provisions in the proposed standard and considers them for a possible amendment to IAS 36 in the near future, thereby advancing convergence on this matter.

See Appendix A for our responses to the detailed questions presented by the Board.

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We appreciate the Board's consideration of these comments and are available to discuss these matters at your convenience.

Sincerely,

Allan Cohen

Chairman, Financial Reporting Committee Institute of Management Accountants

cc: Sir David Tweedie, IASB Chairman

APPENDIX A

The following are our responses to the detailed questions presented by the Board:

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 are you most focused (for example, debt or equity).

The FRC is the financial reporting technical committee of the IMA and has members representing each of the categories, including preparers of financial statements for public and private entities, including some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts.

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.

Yes. We believe preparers whose reporting units have ample headroom in their assessments of fair value will no longer obtain a formal third-party valuation of their reporting units annually, thereby saving costs and generating efficiencies in financial reporting. Even preparers who do not conduct a formal third-party valuation engagement will undoubtedly realize some degree of savings in the form of reduced internal costs for developing data such as cash flow forecasts, corporate allocations, and WACCs, and preparing documentation. Further, to a varying degree, we also believe that external audit costs related to a qualitative review should be less than those associated with a formal quantitative review.

We do not believe that the proposed change would fundamentally increase the complexity of the goodwill impairment test. However, whenever an entity has multiple reporting units, the determination of fair values of each reporting unit may play a larger role in the overall goodwill impairment test especially if certain corporate or shared assets and liabilities have historically been allocated based on a relative fair value approach. For example, when an entity with multiple reporting units determines it must conduct a quantitative assessment for one of its reporting units because it is more likely than not that the fair value of that reporting unit is less than its carrying value, allocating corporate or shared assets and liabilities will be more complex if the entity has historically allocated such assets and liabilities on a relative fair value approach but does not need to perform a quantitative analysis for its other reporting units. In such instances, the entity will need to determine a methodology to perform allocations of corporate and shared assets and liabilities. However, we believe this complexity can be mitigated somewhat by using an entity's internal resources (e.g., M&A or Strategy group) to perform a

reasonable allocation of the corporate and shared assets and liabilities and accordingly, we do not believe this complexity should prevent the Board from finalizing this proposed standard.

However, some have questioned whether an entity would need to reconcile the fair value of the entity as a whole to the sum of the reporting units. As the test is designed to eliminate the need to calculate fair values of reporting units, we believe a quantitative approach to this assessment would no longer be required. It would be helpful to acknowledge this point as part of the Board's deliberations.

Ouestion 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.

We believe that the majority of entities with reporting units whose fair values exceed their carrying value will perform the qualitative assessment and if successful, forgo performing a formal valuation analysis. We do expect that in some periods, perhaps to update a previous "baseline" assessment, some entities may elect to skip the qualitative assessment and proceed directly to the quantitative assessment. We expect this approach to vary by company and industry but in any case, the qualitative approach will provide increased flexibility in financial reporting and result in lower costs. We suspect that entities with reporting units where the most recent quantitative analysis indicated that the fair value of the reporting units did not significantly exceed their carrying amounts (for example, in the initial period(s) subsequent to an acquisition of a reporting unit or when an impairment charge was recently recorded for a reporting unit) will perform the quantitative analysis.

Ouestion 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?

The auditors on our committee believe that for many entities, costs and complexity will be reduced by the application of the proposed guidance, whether the entity is public or nonpublic. While an entity's use of the qualitative assessment will undoubtedly introduce additional judgments for auditors, the application of judgment is not uncommon for preparers and auditors and thus should not increase audit costs. A factor in the ultimate application of the proposal will be the views of the regulators. At this point, it is unclear what the views of regulators (e.g., SEC, PCAOB) will be with respect to an entity's use of the qualitative assessment (given the varying circumstances that could be encountered). Clearly, the acceptance of reasonable judgments by the regulators will influence whether costs and complexity are sufficiently reduced under the proposal.

Ouestion 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.

The financial statement users on our committee believe that, in certain instances, the qualitative approach for testing goodwill for impairment could delay the recognition of a goodwill impairment loss as compared to current GAAP. A preparer's reasonable judgment when applying the qualitative test is inherently more likely to be subsequently proven incorrect (e.g., preparer concludes it is more likely

than not that the fair value of an entity's reporting unit exceeds its carrying amount when in fact it does not), than the quantitative test required under current GAAP. However, more often than not an impairment of goodwill is a trailing indicator of problems in a business, effectively affirming what the users of the company's financial statements already know or suspect. In a limited number of cases the impairment of goodwill can highlight a weakness that users may not have otherwise been aware of. The financial statement users on our committee recognize that the benefits of reducing complexity in GAAP are likely more important than the risk that the "surprise" goodwill impairment is delayed and, accordingly, believe the Board should proceed with finalizing this project.

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?

We agree that list appears to be adequate.

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?

Evaluating all the identified events and circumstances on a weighted basis can certainly result in conclusions that can be subjective. However, entities currently encounter similar judgments throughout the accounting literature. Therefore, we support the approach set forth in the proposed standard.

Ouestion 8:

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

Yes. While we understand the impetus for the proposed amendments was from preparers of nonpublic company financial statements, the issues of cost and complexity are similarly experienced by preparers of public company financial statements.

Question 9:

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

We agree with the proposed effective date provisions as well as the ability to early adopt the proposed standard.