

American Institute of CPAs 220 Leigh Farm Road Durham, NC 27707-8110

June 6, 2011

Susan M. Cosper Technical Director FASB 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: April 22, 2011 Exposure Draft of a Proposed Accounting Standards Update (ASU), Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment [File Reference No. 2011-180]

Dear Ms. Cosper:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

## **GENERAL COMMENTS**

TIC supports the issuance of this ED as a final standard and appreciates the Board's efforts to address these issues in a timely manner.

TIC has provided responses below to six of the nine questions posed in the ED and has also provided a suggestion for an additional agenda item for private companies.

## SPECIFIC COMMENTS

## **Questions for Respondents**

*Question 1: Please describe the entity (or the individual) responding to this Discussion Paper.* 

As mentioned above, the Technical Issues Committee is a committee of the Private Companies Practice Section of the AICPA and comprises 13 practitioners representing the interests of local and regional accounting firms throughout the U.S. in the standard setting process. Some member firms have clients that are both private and publicly held entities; other members limit their practices to private entities.

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?

TIC agrees that the standard should serve to reduce the complexity and cost of evaluating goodwill for potential impairment. Many nonpublic entities do not have the in-house expertise to perform the necessary impairment analysis that is required under the existing standards. Those entities have to incur additional cost to engage a valuation specialist, which, in turn, will require the auditor to perform procedures in order to rely on the specialist's work. Frequently, the auditor finds significant issues with the assumptions and methodology used, thus requiring the specialist to spend additional time re-working the model or changing the assumptions. As a result, the audit firm must perform procedures multiple times to gain comfort on the specialist's work, despite the fact that, in most instances, the end result of management's analysis is unchanged and goodwill often is not impaired.

Thus, TIC believes that allowing for a more qualitative assessment to screen for potential impairment should greatly reduce the additional work required and the cost of the audit. TIC believes that, without undue effort and expense, auditors will be in a position to evaluate management's assessment of the qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount (including goodwill) and whether further impairment tests are necessary.

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?

TIC believes that the following factors should be added to those included in the ED:

- Impending threat of nationalization—TIC views this factor differently from "limitations on accessing capital" in item (a) of par. 3C. If the goodwill is associated with a subsidiary entity that is under threat of nationalization, it would be likely that the goodwill would be impaired regardless of the entity's access to capital.
- Changes in tariffs, import/export quotas, the imposition of trade embargoes and other similar limiting factors.
- Environmental matters including significant environmental hazards and/or events.
- Natural disasters which are very likely to adversely affect or have actually significantly slowed or stopped production and/or distribution.

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?

For the standard to be readily understood by practitioners, preparers and users, TIC believes that a series of examples should be provided (as implementation guidance for paragraph 350-20-35-3F through 3G) illustrating the analysis of the more-likely-than-not assessment and how that analysis is influenced by the interrelationship of multiple factors, including the impact of mitigating factors, in the final determination. TIC is not requesting that an ultimate

conclusion be made on any example, but that the analysis process be clearly illustrated. Without such guidance, constituents may analyze identical fact patterns and reach conclusions that are different from each other and from what the Board intended.

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.

TIC agrees that the standard is applicable to both public and nonpublic entities.

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

TIC believes that the adoption timeframe is appropriate and anticipates that most entities would elect to early-adopt the provisions.

## **Additional Comment**

As TIC reviewed this ED, an ancillary issue arose that caused most TIC members to question the need to separately value (at the acquisition date) acquired, identifiable intangible assets of nonpublic entities that meet only the separability criterion (such as customer or subscriber lists) discussed in FASB Accounting Standards Codification™ paragraphs 805-20-25-10 and 805-20-55-4. These TIC members believe there is no real benefit for users of private entity financial statements in separately valuing intangible assets that do not meet the contractual/legal criterion at the acquisition date. Most users of these financial statements (e.g., lenders) have covenants that exclude these and other "soft" assets, such as tangible net worth computations. Generally when they are assessing the credit worthiness of a private entity, they are interested in considering only those assets that are saleable in the event of a credit default. Assets that are not legally separate imply value in the sale of the ongoing business and accordingly are heavily discounted by lenders. TIC also questions whether the step 2 impairment test for determining the potential write-down for intangible assets that meet only the separability criterion is the best method. TIC believes the business combination standard should be re-examined for private entities to allocate the purchase price to only those intangibles that meet the contractual/legal criterion with any residual (including intangibles that meet the separability criterion) to goodwill.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Philip J. Santarelli, Chair

**PCPS Technical Issues Committee** 

cc: PCPS Executive and Technical Issues Committees