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Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5166 Norwalk, CT 06856-5116 6 June 2011

Re: Proposed Accounting Standards Update, *Testing Goodwill for Impairment* (File Reference No. 2011-180)

Dear Ms. Cosper:

We appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Testing Goodwill for Impairment* (the Proposed Update).

We support the Board's efforts to reduce the cost and complexity of performing the first step of the goodwill impairment test required under Topic 350, Intangibles – Goodwill and Other. Allowing the use of the proposed qualitative screen will simplify the goodwill impairment assessment and potentially reduce costs for companies that have reporting units whose fair values have historically exceeded their carrying amounts by significant margins. Further, we believe that more companies may satisfy the "more-likely-than-not" requirement of the proposed qualitative screen than have been able to satisfy the "remote" threshold in the current carryforward option.

In addition, we believe the Board should allow companies to use a qualitative screen when testing indefinite-lived intangible assets for impairment. In practice, companies with sizable indefinite-lived intangible assets incur significant costs when they test those assets for impairment. In fact, determining the fair value of an indefinite-lived intangible asset is often as complex as determining the fair value of a reporting unit. Companies tend to incur significant costs even when there is little risk of impairment based on qualitative factors. We therefore recommend that the Board extend the scope of the Proposed Update by also permitting the qualitative assessment approach to impairment testing of indefinite-lived intangible assets. Doing so would provide greater consistency among testing of all long-lived assets for impairment, since the processes for testing tangible and finite-lived intangible assets for impairment also begin with a qualitative assessment.

Providing additional implementation guidance also would help companies develop and document their qualitative assessments. In certain circumstances, we believe an assertion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount would potentially require a quantitative analysis to validate management's qualitative assessment. In addition, it also might be difficult to conclude based on an array of qualitative factors with the same level of comfort as is provided by a quantitative analysis. Similarly, we anticipate that validating management's assertion that it is not more likely than not that the fair value of a reporting unit is less than its



carrying amount may be difficult if this assertion is based solely on qualitative factors. In this regard, providing additional implementation guidance could help companies overcome these difficulties when applying the proposed guidance. For example, guidance as to how management should weigh varying qualitative factors (both positive and negative) when the fair value of its reporting unit has not historically exceeded its carrying amount by a significant margin, would provide additional benefits to the application of the Proposed Update.

Appendix 1 to this letter provides our responses to the *Questions for Respondents* included in the Proposed Update.

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Very truly yours,

Ernst + Young LLP

Appendix 3

<u>Appendix 1</u> - Responses to the *Questions for Respondents* included in the Proposed Accounting Standards Update, *Testing Goodwill for Impairment*

This Appendix includes our responses to questions addressed to all respondents or specifically to auditors. We have not responded to questions addressed to preparers or users.

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).

Ernst & Young LLP is one of the largest professional services organizations in the country, and audits both private and public companies, whose financial information is prepared in accordance with US GAAP.

Questions 2 and 3: Not applicable for auditors.

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?

We believe that the proposed amendments may reduce costs and complexity for companies with reporting units whose fair values have historically exceeded their carrying amounts by significant margins when performing Step 1 of the goodwill impairment test. Companies that have historically had reporting units that have passed Step 1 of the goodwill impairment test by significant margins would presumably be able to efficiently conclude, absent significant negative factors, that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. However, if a company elects to perform the qualitative screen and ultimately concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it will still need to calculate the fair value of the reporting unit (Step 1). As a result, for those companies, the proposed amendments may not reduce, and could possibly increase, the cost associated with performing the goodwill impairment test, as companies would allocate time and resources to perform the qualitative screen in addition to the time and costs associated with the current guidance.

Similarly, we believe that the Proposed Update may reduce audit-related costs in certain instances, particularly when companies have reporting units whose fair values have historically exceeded their

carrying amounts by significant margins. However, the subjective and judgmental nature inherent to the qualitative assessment could pose challenges to auditors when testing and corroborating management's assertion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. For example, if a company has a reporting unit whose fair value approximated its carrying value in recent quantitative analyses, auditors could experience increased costs in performing sensitivity analyses to corroborate management's more-likely-than-not assertion.

Our response does not differ based on whether the company is public or nonpublic. We believe that public and nonpublic companies incur similar costs and have similar concerns about complexity when performing Step 1 of the impairment test.

Question 5: Not applicable for auditors.

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?

Yes, we agree that the proposed examples of events and circumstances to be assessed are adequate, and better reflect reasons companies have disclosed for recognizing goodwill impairment losses than the factors in the current guidance.

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?

Yes, we agree that the guidance in the proposed amendments is clear about how a company should assess relevant events or circumstances. However, we believe that the Proposed Update could benefit from implementation guidance to help companies apply the Proposed Update.

The Board noted in the Basis for Conclusion of the Proposed Update that many companies have not used the carryforward option allowed under current guidance because they cannot satisfy the carryforward criteria. Although the qualitative assessment in the Proposed Update is less restrictive than the threshold for using the carryforward option under current guidance, we believe that the ability to rely on a recent fair value calculation as a benchmark diminishes with the passage of time. In certain circumstances, this could make it difficult for companies to conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount without performing a periodic quantitative assessment. Although we agree with the Board's conclusion that requiring a periodic quantitative analysis would conflict with the benefits of applying a qualitative approach, we believe that the reliability of a fair value calculation, including assessing the amount of time that has lapsed since the last fair value calculation was performed, should be considered in a company's determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

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.

Yes, we agree with the Board's decision that the proposed amendments should apply to both public and nonpublic companies. As stated previously, we believe that preparers of public and nonpublic

company financial statements share concerns about the cost and complexity of performing Step 1 of the impairment test.

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

Yes, we agree with the proposed effective date provisions, including early adoption.