



June 3, 2011

Technical Director  
File Reference No. 2011-180  
Financial Accounting Standards Board  
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PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's proposed accounting standards update, *Testing Goodwill for Impairment*. We support the Board's efforts to reduce the costs and complexity of applying the current goodwill impairment guidance.

In principle, we support the use of some form of a qualitative assessment that could result in an entity not having to measure fair value of a reporting unit in certain circumstances. We believe the proposed update will be more cost effective than current guidance when a reporting unit's fair value substantially exceeded its carrying amount in a prior period and no significant adverse changes have since occurred. However, in other situations, the proposed update may limit potential cost savings and create implementation challenges. Consequently, we believe a modification to the existing guidance that expands the ability to carry forward the fair value determination of a reporting unit could be more operational, and thus a preferred path forward. Our modified approach is discussed later in this letter.

#### Implementation challenges

The proposed update would allow an entity first to assess qualitatively whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Fair value measurement, however, is inherently quantitative. A qualitative assessment of events and circumstances would therefore only indicate whether a reporting unit's fair value may have changed in the current period. As a result, an entity choosing to use the proposed qualitative approach must have a baseline fair value measurement from which to start. It may be difficult for a qualitative assessment alone to support a conclusion that no further evaluation is necessary when a reporting unit does not have a recent fair value calculation that exceeded its carrying amount by a substantial margin. Without such support, we believe that the proposed update will create operational challenges for both preparers and auditors when evaluating management's assertions. Such operational challenges may limit cost savings intended by the proposed update and may result in unanticipated costs to preparers due to potentially higher scrutiny and "second guessing" by regulators.



### Documentation and disclosure requirements

We understand that the Board's intent was that an entity affirmatively assess and document its consideration of the qualitative factors when performing its annual impairment test, particularly if the entity concludes that performing step one is not necessary. However, the proposed update does not provide guidance on how performance and documentation of the annual impairment test should differ from the interim test. The proposed update also does not include any disclosure requirements, which we believe would assist investors in understanding how an entity performed its qualitative assessment.

### Indefinite-lived intangible assets

We believe that indefinite-lived intangible assets should be included in the scope of the proposed update. Otherwise, indefinite-lived intangibles will remain the only long-lived asset for which there is a requirement to calculate fair value on an annual basis. In many cases, there is significant overlap between the effort to measure the fair value of an indefinite-lived intangible asset and a reporting unit. As a result, the proposed update may not result in cost savings for entities with reporting units that also contain an indefinite-lived intangible asset. We believe the proposal's qualitative assessment approach could be applied effectively to indefinite-lived intangibles, subject to our suggested improvements discussed below.

### A modified approach

As an alternative to the proposed approach and to minimize implementation challenges, we recommend that the Board retain, but modify, the existing guidance in ASC 350-20-35-29 that allows an entity to carry forward a reporting unit's fair value determination if certain criteria are met. We propose that the existing three criteria<sup>1</sup> be replaced with the following:

#### **(1) The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.**

We believe that preparers and auditors can apply appropriate judgment in determining what constitutes "recent" and "substantial margin" based on facts and circumstances.

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<sup>1</sup> a. The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination.  
b. The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.  
c. Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.



**(2) It is more likely than not that the reporting unit's fair value is greater than its carrying amount, based on an assessment of events that have occurred and circumstances that have changed since the most recent fair value determination.**

The assessment of whether it is more likely than not that a reporting unit's fair value is greater than its carrying amount should be based on the weight of the evidence taking into account the Board's proposed examples of events and circumstances. To improve the operability of the carry forward provision, we also propose that the standard:

- a) articulate clearly that the more time that has elapsed since the last fair value determination, the more difficult it is to reach a conclusion based solely on a qualitative assessment
- b) indicate that more weight be given to evidence (events or circumstances) that is objectively verifiable than evidence that is not. For example, a recent history of negative cash flows should be given more weight than projections that cash flows will improve or become positive.
- c) consider adding, subject to cost-benefit analysis by the Board, financial statement footnote disclosures of an entity's basis for concluding that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount. Such disclosures likely would provide important information to users about why an entity concluded that a current fair value calculation was not necessary.

In its basis for conclusions, the Board noted that many public and nonpublic entities have not used the carry forward option because they either were unable to meet the required criteria, or because their auditors would not allow them to do so. Under the current guidance, an entity seeking to use the carry forward option must determine that the likelihood that a reporting unit's current fair value is less than its carrying amount is remote. Few entities are able to meet a threshold of remote likelihood based on qualitative factors alone. In addition, for an entity to apply the current carry forward option, the assets and liabilities that make up the reporting unit cannot have changed significantly since the most recent fair value determination. This criterion also may be difficult to meet because the composition of reporting units changes often.

Our proposed improvements would address these concerns. First, the threshold of "remote" would be replaced with "more likely than not." Second, the lack of significant changes in the composition of a reporting unit would no longer be, by itself, a determining factor. Instead, changes in the composition of a reporting unit would be one of many examples of events and circumstances an entity would consider when determining whether it is more likely than not that the reporting unit's fair value is greater than its carrying amount.



In summary, we believe that our alternative approach would meet the Board's objectives while minimizing implementation challenges. At the least, though, we recommend that the final standard incorporate improvements (a) through (c) above.

*A broader project to reconsider goodwill impairment*

The FASB staff has pointed to evidence suggesting that many financial statement users view goodwill impairment as a "lagging indicator". We observe that many companies spend considerable time and incur substantial costs to perform their goodwill impairment tests, and that it is not clear whether users receive commensurate benefits. Consequently, we believe that the FASB and the IASB should undertake a broader joint goodwill impairment project to reassess users' information needs in this area (or potentially consider aligning the impairment models for all long-lived assets). Based on the results of that assessment, the Boards should consider other approaches to reduce cost and complexity, such as amortization, direct write-off, and / or raising the level at which goodwill is tested. Alternatively, the FASB could consider the current IFRS approach to goodwill impairment, which does not require the calculation of "implied goodwill" through application of acquisition accounting once impairment recognition is required.

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In conclusion, we support the Board's efforts to reduce costs and simplify the goodwill impairment guidance. The recommendations outlined in this letter are intended to improve the final standard and address implementation concerns.

If you have any questions regarding our comments, please contact Lawrence Dodyk at (973) 236-7213 or Douglas Parker at (973) 236-4707.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



## Appendix A - Responses to Questions

***Question 1: Please describe the entity or individual responding to this request.***

We are one of the largest audit firms in the country and we audit the U.S. GAAP financial statements of both private and public companies.

***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.***

We are not a preparer, but have summarized our thoughts on this issue in our cover letter.

***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.***

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?***

As compared to current guidance, we believe that the proposal will reduce the cost of annual goodwill impairment tests in certain situations, such as when a reporting unit's fair value exceeded its carrying amount by a substantial margin in a prior period. We also believe that the proposal's qualitative approach may result in certain implementation issues that carry hidden costs. We describe our views and recommended improvements more fully in our cover letter.

***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.***

We are not a user, but have summarized our thoughts on this issue in our cover letter.



***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 the proposed examples of events and circumstance to be assessed are adequate and represent an improvement over current guidance. The proposed examples are more directly related to and consistent with the significant inputs that affect a reporting unit's fair value. We do, however, recommend clarifying criteria "f" in 350-20-35-3C to read "Events affecting a reporting unit such as a change in the **composition or** carrying amount of its net assets ..."

***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?***

As further discussed in our cover letter, we recommend certain improvements that we believe will enhance the operability and cost reduction objectives of the proposal.

***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.***

We agree with the Board's decision. The issues around cost and complexity are common to both private and public companies.

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

We agree with the proposed effective date, transition method and early adoption provisions of the proposal.