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Technical Director
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Subject: Exposure Draft of Proposed Accounting Standards Update: *Intangibles—Goodwill and Other* (Topic 350): Testing Goodwill for Impairment

Dear Technical Director:

The McGraw-Hill Companies, Inc. (“McGraw-Hill”) appreciates the opportunity to provide the Financial Accounting Standard Board (the “Board”) with comments on its Exposure Draft of Proposed Accounting Standards Update *Intangibles—Goodwill and Other* (Topic 350): Testing Goodwill for Impairment (the “Proposed Update”).

McGraw-Hill’s shares are publicly traded on the New York Stock Exchange. We are a leading global information services provider serving the financial, education and business information markets with the information needed to succeed in the “Knowledge Economy”. We serve our global customers through a broad range of products and distribution channels, including digital data and information, integrated digital platforms, printed books, magazines and newsletters, online via internet websites and through wireless and traditional on-air broadcasting, as well as through a variety of conferences and trade shows.

We operate our businesses through four operating segments: Standard & Poor’s, the world’s foremost provider of credit ratings; McGraw-Hill Financial, a leading global provider of digital and traditional research and analytical tools for investment advisors, wealth managers and institutional investors; McGraw-Hill Education, one of the premier global educational publishers; and McGraw-Hill Information & Media, which is focused on providing critical information, largely through digital channels, for the construction, aerospace and defense, automotive, and general business markets.

For the year ended December 31, 2010, McGraw-Hill generated revenue and net income of approximately \$6.2 billion and \$828 million, respectively; as of December 31, 2010, we have approximately 21,000 employees worldwide, of which approximately 11,000 were employed in the United States.

Our view of the Proposed Update

We believe the changes in the Proposed Update are a strong indicator of the Board’s willingness to embrace a principles-based approach to designing accounting standards consistent with the Board’s reduced reliance on “rules-based” accounting standards. We support the proposed amendments to Topic 350 for several reasons:

- **Increased accountability by management for financial information.** The consideration of qualitative factors will formalize the requirement of an entity's management to consider the operations of an entity and the environment in which it operates as well as changes to the short and long term outlook of the entity's reporting units when considering whether goodwill is impaired. We believe the qualitative assessment will provide management with greater opportunity to exercise judgment when evaluating whether impairment exists by considering fundamental business drivers instead of relying on mechanical tests that focus on valuation sensitivities and highly subjective pro forma cash flow forecasts.
- **Timely recognition of impairment charges.** We understand the Board is concerned that using a qualitative approach for testing goodwill may delay the recognition of impairment losses or affect how users evaluate goodwill reported in financial statements. While we understand the Board's concern, we believe that when properly applied, the qualitative approach provided in the Proposed Update would not impact the timeliness of the recognition of goodwill impairment as compared to the current standards on the basis that a consistent level of consideration will continue to be given to the events and circumstances which may arise indicating that an impairment exists. We believe that these events and circumstances would be factored into management's valuation analysis under both the current and the proposed guidance. More specifically, the primary factor behind timely recognition of a reporting unit's impairment is contingent on whether management has accurately quantified the impact from qualitative factors such as those included in the Proposed Update in its analysis and not necessarily from automatically performing a step one impairment test.
- **Increased efficiencies.** As further discussed in our responses to the Board's specific questions in the attached Appendix, we believe the amendments in the Proposed Update will significantly reduce the overall costs and complexity of evaluating when goodwill impairment exists by removing the requirement to automatically perform an annual step one valuation analysis for each entity's reporting unit, regardless of how well the reporting unit is performing and how favorable its short and long-term financial outlook may be.

Summary

We are in favor of the Board's proposed changes to Accounting Standard Codification 350 *Intangibles—Goodwill and Other* ("ASC 350") and believe that the improvements in the Proposed Update will effectively simplify how an entity is required to test for goodwill impairment and will reduce the cost and complexity of applying ASC 350 without sacrificing the overall quality of information presented in financial statements.

The attached Appendix includes our detailed response to certain of the Board's questions in the Proposed Update. We appreciate the opportunity to comment on the Proposed Update and would be pleased to discuss our comments with the Board members or the FASB staff at their convenience.

Sincerely,



Emmanuel N. Korakis
Senior Vice President and Corporate Controller

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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).

Please refer to our cover letter.

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 believe the proposed amendments will reduce the overall costs and complexity of applying existing guidance of ASC 350. By removing the annual requirement to automatically calculate the fair value of each reporting unit, we anticipate that we will reduce both our internal costs from having to prepare and compile cash flow analyses that contemplate multiple years of anticipated cash flows for each of our reporting units, as well as our external costs from utilizing an outside specialist to assist with the preparation of complex valuation assumptions and models for reporting units when there is no observable evidence that indicates a reporting units' implied fair value is less than its carrying value. Further, we believe the amendments in the Proposed Update will also reduce the auditors' work effort to evaluate whether goodwill is impaired thus leading to reduced fees from the annual audit.

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.

We anticipate that we will choose to perform a qualitative assessment to evaluate whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount before proceeding to the first step of an impairment test. McGraw-Hill has five reporting units with goodwill, many of which historically have had significantly higher fair values than their respective carrying values. Further, the historical, current and anticipated profitability of many of our reporting units provides observable evidence supporting our assertion that our reporting units' fair value will continue to significantly exceed their respective carrying values in both the short and long-term. Finally, many of our reporting units hold leading positions in their respective markets that we believe will continue to expand as demand for reliable and relevant information becomes even more essential to compete in the "Knowledge Economy", thus indicating that impairment of our reporting units would be unlikely in consideration of their respective operating environments.

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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 believe the proposed examples of events and circumstances in the Proposed Update provide an adequate level of guidance to financial statement preparers to consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

However, we believe that the reference in proposed paragraph 350-20-35-3C (d) to “*declines in...planned revenue and earnings*” should be omitted or at least qualified to read “significant declines...in planned revenue and earnings” in the example of events and circumstances to consider when evaluating whether an impairment event could occur.

In practice, “planned” revenue and earnings frequently contemplate achievement goals designed to energize sales forces and provide incentives for meeting goals linked to compensatory arrangements; failure to meet such “planned” revenue or earnings targets is frequently a function of aggressive goals, not a fundamental weakness in the reporting unit’s business that is an indicator of goodwill impairment. We believe the remaining examples in the Proposed Update and limiting the reference in paragraph 350-20-35-3C (d) to declines “actual” revenues and earnings provide adequate examples of events and circumstances that would be indicative of impairment for management to consider that would provide evidence of systematic cash flow deterioration absent of references to planned revenue and earnings metrics.

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?

We believe the guidance in the Proposed Update about how an entity should assess relevant events or circumstances that could lead to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount is clear.

Notwithstanding, in the interest of reducing the probability that preparers and auditors will use paragraph 350-20-35-3C (a) through (g) as a “checklist” to evaluate whether to proceed to step one of an impairment test, we suggest the Board consider providing guidance in a manner that facilitates a principles based approach consistent with guidance provided in ASC 605-45 *Revenue Recognition, Principal Agent Considerations* for determining whether an entity should use either gross or net reporting. Specifically, we suggest that the board consider including language similar to that in 605-45-45-1 that makes it clear that it is a matter of judgment whether the examples of the events and circumstances in paragraph 350-20-35-3C could significantly impact the fair value of the entity’s reporting units. We understand this concept may be consistent with the guidance set forth in paragraph 350-20-35-3F of the Proposed Update, however explicit guidance indicating the relevancy of the examples of events and circumstances that may suggest impairment may exist are subject to management’s judgment would clarify that if such conditions exist an entity is not automatically required to proceed to step one of an impairment test.

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.

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We agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities.

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

We agree with the proposed effective date provisions of the Proposed Update as well as the intention to allow companies to early adopt this guidance.