

June 6, 2011

Technical Director Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

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The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (ASU), *Testing Goodwill for Impairment*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We appreciate the Board's efforts and are supportive of the goal to simplify how an entity is required to test goodwill for impairment. We believe that the proposed model has the potential to streamline an entity's goodwill impairment assessment, especially when it is clear that no impairment indicators exist. However, in situations that are less clear, we are concerned that the amount of documentation and support required to apply a qualitative approach that would preclude step 1 of the goodwill impairment test might prove so burdensome that the costs associated with applying the proposed guidance might outweigh its benefits.

In addition, we are concerned that the proposed "more likely than not" threshold constitutes a bright line, and might be too low a threshold for determining whether it appears impairment does not exist, such that the proposed guidance would not achieve the Board's stated objective of simplifying how an entity is required to test goodwill for impairment. Further, the proposed threshold requires a quantitative measurement of likelihood (i.e. greater than 50 percent), and therefore appears to function contrary to the Board's intention to promulgate a qualitative approach for testing goodwill for impairment.

Also, it is our view that the proposed impairment indicators would be improved, and the proposed guidance made more effective, by adding an indicator that addresses the time elapsed since a reporting unit's most recent fair value measurement. We believe that many qualitative assessments would refer to the latest fair value measurement as a baseline, and that as more time passes since such a measurement was performed, the uncertainty associated with a qualitative assessment increases. Therefore, we believe that the introduction of a requirement for preparers to consider the amount of time elapsed since the last fair value measurement would improve the effectiveness of the proposed guidance.

Further, we believe that the Board should reconsider Alternative E as described in the meeting handout for the February 2, 2011 Board meeting, and perhaps incorporate it into the proposed goodwill impairment model. Alternative E would allow an entity to assess goodwill for impairment at a higher level than a reporting unit, such as a subsidiary or consolidated entity level. It is our view that incorporation of Alternative E into the proposed model could significantly reduce the cost and complexity of performing the goodwill impairment evaluation, particularly for nonpublic entities, as they generally do not apply segment

reporting guidance and therefore might not be accustomed to providing information at the reportable segment level. We believe this change would (1) help the Board achieve the objective of its proposed ASU, which is to simplify how an entity is required to test goodwill for impairment, and (2) respond to concerns raised by preparers of nonpublic entity financial statements, which prompted the Board to undertake this project.

Regardless the merits of the proposed guidance, we are concerned that it does not achieve convergence between U.S. GAAP and IFRS. The issuance of divergent guidance under U.S. GAAP appears to be contrary to the principles outlined in the FASB and IASB's Memorandum of Understanding, which include achieving convergence of U.S. GAAP and IFRS by developing high quality, common standards. Although accounting for intangible assets, including goodwill, is not on the two Boards' active convergence agenda, we believe that issuing non-converged standards under U.S. GAAP will make achieving the goal of overall convergence, especially in the near term, more difficult.

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

The Committee consists of CPAs in public practice, industry, and education. We have chosen to respond to all of the questions in the proposed ASU.

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 that, in situations where it is clear that no impairment exists, the proposed amendments would reduce overall costs and complexity compared with current guidance. However, in situations where it is unclear whether impairment exists (i.e. some impairment indicators exist, but other qualitative factors indicate that goodwill is not impaired), we are unable to determine whether the proposed guidance would reduce costs for preparers. In these unclear situations, a preparer could presumably conclude that, due to qualitative factors, a more thorough (quantitative) analysis is unnecessary, but the amount of, and level of detail in, the documentation necessary to support its qualitative assessment could effectively offset any benefit in terms of time and effort required.

The issue of whether it is clear that no impairment exists is related to the application of the proposed "more likely than not" threshold. We believe that preparers will find application of the proposed guidance challenging in situations where it is unclear whether the evidence is weighted more heavily (indicating the likelihood that impairment exists is greater than 50 percent) toward impairment not existing. In our view, the proposed guidance could be made more operational by changing the threshold from "more likely than not," such that a higher likelihood that impairment does not exist would be required for preparers to rely on the proposed qualitative assessment and forgo step 1 of the goodwill impairment test. Further, we believe the proposed guidance could be improved by making the assessment a non-quantitative evaluation of the likelihood that impairment exists rather than applying a bright line of 50 percent.

The proposed "more likely than not" threshold would require a probabilistic evaluation of whether the two step impairment test would indicate that impairment does not exist at the reporting date, if that test were performed. We believe that such a probabilistic evaluation would be difficult to perform unless it is clear that impairment does not exist. If it is unclear whether impairment exists, we believe many preparers will choose to proceed directly to step 1 of the goodwill impairment test, and that if a preparer intends to rely on a qualitative assessment under such circumstances, its auditor

would likely require either a level of support and documentation for the qualitative assessment that would make it cost prohibitive, or performance of step 1 of the goodwill impairment test. Therefore, we believe that the qualitative assessment could be made more operational by limiting its use to situations where it is clear that impairment does not exist. To effect such a limitation, the threshold could be changed to, for example, "probable," or a "high level of certainty," that impairment does not exist.

In addition, it is our view that the proposed guidance could go further to reduce overall costs and complexity for nonpublic entities by permitting them to assess goodwill for impairment at a level higher than the reporting unit. We understand that the Board considered this view as Alternative E in its deliberations on this project. We believe the Board should reconsider this guidance and perhaps incorporate it into the proposed model, as it would likely reduce the cost and complexity for nonpublic entities of applying the goodwill impairment guidance. We understand that the Board reaffirmed its position that goodwill be assessed for impairment at the reporting unit level because it best reflects the way that an entity is managed and is commonly the level at which goodwill is allocated. We question whether this rationale applies equally to public and nonpublic entities, as similar rationale would appear to apply to the requirement to report segment information, which is applicable only to public entities. Given how users commonly view goodwill impairment (see our response to question 5, below), and differences in how public and nonpublic entities report financial information, we believe that incorporating Alternative E into the proposed model could significantly benefit nonpublic entities without undue cost.

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.

As we noted in our response to question 2, we believe that preparers would consider whether their situation is one where it is clear that impairment does not exist. If it is clear that impairment does not exist, we believe that preparers would choose to perform the proposed qualitative assessment, but if it is unclear, we believe that many preparers would choose to proceed directly to performing the first step of the two-step impairment test. As the circumstances become less clear, we believe that preparers would be less likely to undertake a rigorous process to document and support an assertion that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, since it might require equal or even less time and effort to proceed directly to step 1 of the current impairment test.

We would also like to point out that the carryforward option in ASC 350-20-35-29, *Intangibles* – *Goodwill and Other: Goodwill*, appears to provide some measure of relief for entities whose circumstances make clear that impairment is unlikely to exist, but that this provision appears to be underutilized, as the Board describes in paragraph BC12 of the proposed ASU. We believe that part of the reason the current guidance has been ineffective in reducing the cost and complexity of performing the goodwill impairment evaluation is that one of the criteria to carry forward a determination of fair value is that the most recent measurement indicates the fair value of a reporting unit exceeds its carrying amount by a *substantial* margin. We are concerned that, in the same way this "substantial" threshold has impeded application of what appears to have been intended as a practical expedient, so too might the proposed qualitative assessment be rarely utilized in practice, either because entities are not deemed to meet the criteria (for example, a single impairment

indicator exists) or because public accounting firms frequently take exception to the qualitative approach.

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?

For both public and nonpublic entities we believe there would be a trade-off between the cost savings and reduced complexity of potentially not being required to perform step 1 of the goodwill impairment test and the incremental costs and complexity of establishing, supporting, and documenting a position that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount. As we noted in our response to questions 2 and 3, we believe that in situations where it is clear that no impairment exists, the proposed amendments would reduce overall costs and complexity compared with current guidance. However, as situations become less clear as to whether impairment exists, we believe the proposed amendments would do less to reduce costs and complexity due to the level of documentation and support that might be necessary if an entity elects the qualitative approach. In our view, audit firms would likely request more robust documentation and support for these less clear situations, and in some cases might insist that entities perform a quantitative analysis after considering the results of the qualitative analysis.

We believe that public company auditors would be more likely to request more robust documentation and support for qualitative assessments. As the PCAOB noted in its responses to the Board's outreach efforts, the proposed guidance could prove particularly challenging for public company auditors. The PCAOB noted that, given the frequency of audit firm inspection findings in relation to goodwill impairment assessments, the introduction of additional judgment and subjective factors into the impairment assessment process would likely make it more difficult for public company auditors to support their conclusions reached. We echo the PCAOB's concern.

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.

It is our view that the proposed qualitative approach might delay the recognition of goodwill impairment losses. We believe it is possible that some entities will conclude, based on the proposed qualitative analysis, that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, when a quantitative analysis would show that, in fact, the fair value is less than the carrying amount. Further, we believe that such entities, and their auditors, would likely not conclude that sufficient qualitative evidence exists to prompt the entities to perform a quantitative analysis until some later period, thereby potentially delaying the recognition of some goodwill impairment losses. However, we do not know how significant such a delay might be, and we cannot determine whether the benefits of implementing the proposed qualitative approach might outweigh this disadvantage.

We do not believe that the proposed qualitative approach for goodwill impairment testing will change how users evaluate goodwill reported in the financial statements. It is our understanding that users generally exclude goodwill impairment losses from their quantitative analyses and, rather, view an impairment loss as a qualitative indicator of the success of an acquisition, as noted in the

proposal's Basis for Conclusions. We agree with this assessment, and believe that users generally view the recognition of goodwill impairment losses as a trailing rather than a predictive indicator of impairment. It is our view that share prices generally reflect the events and circumstances underlying goodwill impairment before an impairment loss is recognized in an entity's financial statements. We do not believe that implementation of the proposed guidance would change users' views.

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 that the proposed examples of events and circumstances to be assessed could be improved, and the proposed guidance made more effective, by adding an item to address the time elapsed since the entity last measured the fair value of a reporting unit. In our view, as the time since a fair value measurement was last made increases, so does the difficulty of making a qualitative assessment as to whether it is more likely than not the fair value of a reporting unit exceeds its carrying amount. Therefore, we believe that the proposed guidance could be improved to require that preparers consider the amount of time elapsed since a reporting unit's most recent fair value measurement, along with events and changes in circumstances during that period. We do, however, acknowledge that ultimately the proposed qualitative evaluation would be highly judgmental and dependent on an entity's individual facts and circumstances.

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 agree that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear. As mentioned in our response to question 6, it is clear from the proposed guidance that the evaluation process would be highly judgmental and dependent on an individual entity's facts and circumstances. We do not believe that adding more prescriptive guidance around how an entity should assess relevant events or circumstances would make the proposed guidance more operational – in fact, it might undermine the intended benefit of including a qualitative "filter" in the first place.

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.

Our Committee has two views on the Board's decision to make the proposed amendments applicable to both public and nonpublic entities.

View 1: Some members agree with the Board's decision. These members believe that, as expressed in several of the responses above, the proposed guidance will reduce overall costs and complexity for both public and nonpublic entities in cases where it is clear that no impairment exists. Further, there is not a conceptual basis for applying different goodwill impairment methodologies to public and nonpublic entities. Our Committee considered whether factors unique to a public entity, such as a requirement to disclose certain information by reporting segment, as well as the availability of a quoted market price for the entity's shares, might make application of the current goodwill impairment guidance less burdensome for public entities than for nonpublic entities. These members do not believe that such factors reduce the burden for public entities relative to nonpublic entities in applying the current two step goodwill impairment test, and do not believe these factors would support separate goodwill impairment methodologies for public and nonpublic entities. Further, it is

their view that both types of entities would benefit from the proposed guidance in terms of reduced costs and complexity. However, as noted in the Committee's response to question 4, these members share the PCAOB's concern that public company auditors might find it difficult to support their conclusions reached in situations where a qualitative approach is used, thereby lessening the overall benefit of the proposed guidance.

View 2: Other members disagree with the Board's decision. These members believe that, since the Board initiated this project in response to concerns raised by preparers of nonpublic entity financial statements about the cost and complexity of performing step 1 of the current two-step goodwill impairment test, the scope of the project should be limited to nonpublic entities. This is because preparers of public entity financial statements have not raised the same concerns to the Board, and therefore it appears that there is an issue unique to nonpublic entities related to applying the goodwill impairment guidance that requires attention. Regarding the issue of potentially requiring application of different principles to public and nonpublic entities, these members believe that the proposed guidance could be applied only to nonpublic entities without changing the principle underlying the goodwill impairment assessment. Under this view, the principle would be the same for all entities, but nonpublic entities could utilize different implementation guidance that would include the proposed qualitative assessment. Different implementation guidance would be warranted because both the cost of applying the existing guidance and the needs of users differ for public and nonpublic entities. These members believe that certain factors unique to public entities, including the requirement to apply the reporting segment guidance and the availability of public market quotes, reduce the cost of applying the goodwill impairment guidance for public entities relative to nonpublic entities and that, therefore, a practical expedient applicable to nonpublic entities is warranted. Further, these members believe that users of nonpublic entities' financial statements generally require current financial information less frequently than users of public entity financial statements, and therefore the prospect of a nonpublic entity forgoing a fair value measurement of a reporting unit for some period is less troublesome, from a user perspective, than for a public entity.

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

We agree with the proposed effective date of the provisions, and we strongly support allowing entities to early adopt the proposed guidance so that calendar year entities, many of which evaluate goodwill for impairment before year-end, can implement the qualitative approach in 2011.

We appreciate the opportunity to offer our comments.

Sincerely,

Jeffery P. Watson, CPA

Chair, Accounting Principles Committee

Scott G. Lehman, CPA

Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2011-2012

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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Large: (national & regional)

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