



In response to the FASB's request for comment on its Exposure Draft on Testing Goodwill for Impairment, outlined below are VRC's views/responses.

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

- Valuation Research Corporation (VRC) is a full service valuation firm, comprised of professionals with expertise in the valuation of business enterprises, intangible assets, machinery and equipment, real estate and financial instruments. VRC maintains offices in eight US cities with nearly 100 employees. VRC has nine international affiliates, providing valuation services throughout Canada, Mexico, South America, Europe, Asia and Australia
- VRC serves both public and private entities, including large public corporations, private-equity backed entities, hedge funds, business development corporations, pension plans, and small to large-sized private entities.
- VRC completes approximately 1,000 engagements annually
- VRC professionals maintain advanced degrees and certifications such as CFA, CPA, ASA and MAI.

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.

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 a valuation service provider, VRC works with both preparers and auditors. As such, VRC will respond to questions 2 and 4 in aggregate, as noted below.

It is VRC's view, based on our experience in providing valuation services to both public and private entities, that the proposed amendments may increase certain costs (for audit services and related) and may reduce certain other costs. We believe the proposed amendments will likely increase the complexity of goodwill impairment testing by introducing an additional level of subjectivity. Our views reflect the following factors:

1. The proposed amendments may remove the need for step 1 goodwill impairment testing for entities that have reporting units where the likelihood of impairment is between more likely than not and remote. It is our experience that entities with reporting units where the likelihood of goodwill impairment is remote would largely carry forward fair value determinations consistent with existing literature. Paragraph 350-20-35-29 of the current guidance allows for the fair value of a reporting unit to be carried forward from one year to the next when the assets and liabilities of a reporting unit have not changed, a recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial amount and where an analysis of events and circumstances since the most recent fair value determination indicates the likelihood that a fair value determination would be less than the carrying amount of the reporting unit is remote.

It is our view that for many reporting units in this range (between more likely than not and remote) the ability to appropriately utilize a qualitative assessment is difficult given the potential range of fair value estimates.

2. The more likely than not premise (that is a likelihood of more than 50 percent) is too low of a threshold to provide sufficient reliability. In our experience, working with hundreds of companies and completing hundreds of goodwill impairment tests annually, most reporting units we test for impairment do not meet the proposed threshold. As a practical expedient for companies that do not utilize the carry forward but for whom impairment is considered highly unlikely, we often provide limited scope calculations (e.g. application of market multiples) to determine an estimate of the fair value of the reporting unit. If no quantitative analysis is performed, it would be our contention that auditors would enhance their "shadow" calculations to provide increased documentation and support of qualitative assumptions to ensure satisfactory peer and PCAOB reviews. It has been our experience that often a qualitative assessment cannot determine whether the fair value is greater than or less than its carrying amount. Only a quantitative approach, even if of a limited scope, can appropriately capture and weight the multitude of factors that go into a fair value determination.

3. The factors noted in paragraph 350-20-35-3C of the exposure draft are ambiguous with multiple moving parts of differing importance to the fair value of the reporting unit. While the factors noted appear to be reasonable, determining the fair value of an entity is not based on a formula and different criteria may have different, and even offsetting, levels of importance and impact at different times. A qualitative approach cannot account for the relative importance of the various events and circumstances. Although the literature suggests assessing the totality of events or circumstances, it is difficult and imprecise to review the factors in aggregate and as such it is our expectation that entities would review each of the factors individually and then attempt to determine whether the fair value is less than the reporting units carrying amount using a “checklist” approach.
4. Determining the fair value of reporting unit can be difficult and involves qualitative considerations, quantitative calculations and specialized knowledge and experience. For entities with multiple reporting units, reconciliation to the market capitalization, or for private entities reconciliation to the aggregate valuation of the entity, is commonly required. From a practical perspective, goodwill impairment testing for multiple reporting unit entities involves accounting for shared assets, shared liabilities and shared expenses. The valuation of individual reporting units and the overall entity provides discipline to this allocation process and results in a fair value estimate for the individual reporting units that is reasonable and appropriate. As such, two issues arise:
 - i. Is the allocation process for assets, liabilities and shared expenses used to evaluate the qualitative factors reasonable? Is the valuation of individual reporting units reasonable in light of the allocated expenses?
 - ii. Is the fair value of the reporting units, in aggregate, reasonable relative to the value of the overall entity – based on market capitalization if a public entity and fair value if a private entity? Can this reasonableness test be completed if certain reporting units are reviewed qualitatively even if the fair value is determined for reporting units where it is more likely than not that the fair value is less than the carrying amount?

Because the determination of the fair value of a reporting unit is a technical process, requiring both a knowledge of valuation techniques and judgment based on experience, a company applying the proposed initial qualitative assessment may not have personnel with sufficient expertise to make a reasonable estimate of the impact on the fair value of a reporting unit resulting from changes to the events and circumstances described in 350-20-35-3B. This is because while companies generally employ various financial professionals, individuals with appropriate valuation skills, specifically as they relate to the development of fair value estimates, are often not found in companies.

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.

Based on our initial discussions with preparers, it is our view that many entities, both public and private entities, will complete the qualitative test in addition to, rather than instead of, step 1 of the impairment test because:

1. As noted above, in situations where the likelihood of impairment is remote, entities are already utilizing limited scope calculations or carrying forward fair value determinations from prior years.
2. In situations where the more likely than not consideration would allow for use of a qualitative test, many preparers will decide that the expenses avoided, if any, via a qualitative test will be insufficient to offset the increased risk exposure and uncertainty.
3. The qualitative test involves a significant level of judgment in assessing the factors and then weighting the factors in order to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount.
4. Determining the fair value of the reporting units gives the entity a robust, well-documented conclusion that incorporates the qualitative factors, as appropriate.
5. The qualitative assessment attempts to measure whether the fair value of the reporting unit is less than its carrying amount. Comparing two quantitative factors using a qualitative assessment is difficult unless a recent benchmark is available, the difference is significant or the likelihood that the fair value of a reporting unit is less than the carrying value is remote.

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.

Yes, the qualitative approach for testing goodwill for impairment will likely delay the recognition of goodwill impairment losses. Goodwill impairment is usually not desired and often occurs in, or shortly after, time periods where entities are under duress. The more likely than not premise (that is a likelihood of more than 50 percent) is an extremely low threshold and the qualitative factors can be given varying degrees of importance in determining the fair value of a reporting unit. As such, as entities begin to make these qualitative assessments there may be significant organizational pressure to rationalize where the reporting unit stands relative to these factors or to look at factors through a less disciplined or less experienced prism. As a result, the qualitative approach may lead to delays in recognizing impairment and may lead to subsequent large one-time charges once it is determined that an impairment charge is inevitable.

It has been our experience that often a qualitative assessment cannot determine whether the fair value is greater than or less than its carrying amount. Often only a quantitative approach, even of limited scope, can appropriately capture and weight the multitude of factors that go into a fair value determination.

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, the proposed examples are adequate qualitative considerations. However, they cannot on their own determine if the fair value of a reporting unit is less than its carrying amount. There will be situations where the factors have differing, or even offsetting, effects and the exercise will require assessing which factors should be given greater consideration. For example, there may be a situation where market-based factors are important but entity-specific factors are of greater importance. For example, a situation may arise where a reporting unit has a modest decline in current year revenue and earnings. The long term forecast remains strong and in line with management's expectations prior to the current year. In reviewing the qualitative factors, the single most important factor in this situation may be when the reporting unit was acquired. If the reporting unit was acquired recently – within the last 2 years, its carrying amount is likely to be approximately equal to its fair value, since the impact of amortization has not reduced the reporting unit's carrying value and growth and synergies have not increased the reporting unit's fair value. On the other hand, if the reporting entity was acquired many years ago, the likelihood of impairment may be remote as its fair value is significantly greater than the reporting entity's carrying amount, and a small reduction in revenue or earnings would not sufficiently reduce the reporting units fair value to the point it may be less than its carrying amount.

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. The proposed guidance about how an entity should assess relevant events or circumstances is clear.

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. VRC agrees with the proposed amendments being applicable to both public entities and nonpublic entities.

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

Yes. While VRC disagrees with certain aspects of the exposure draft, if it moves forward, the proposed effect date provisions are reasonable.