

June 6, 2011

Ms. Susan Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Via Email to <u>director@fasb.org</u>

Audit - Tax - Advisory

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Re: File reference No. 2011-180

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU), *Testing Goodwill for Impairment*.

We support the Board's effort to address the concerns of financial statement preparers pertaining to the cost and complexity involved in calculating the fair value of a reporting unit for performing step 1 of the annual goodwill impairment test. However, we are concerned that the guidance in the proposed ASU would be difficult to apply in practice and that the cost savings, if any, would be offset by the additional efforts required by preparers and their auditors to implement the guidance. Therefore, we do not support the proposed elimination of any requirement to perform a periodic fair value calculation to support an entity's qualitative assertions and recommend that the Board instead reconsider the following alternatives to reduce the cost and complexity of goodwill accounting:

- Lower the threshold for carrying forward an entity's detailed fair value calculation, with an
 explicit limit on carryforward periods. This guidance would apply to both public and
 nonpublic entities.
- Permit nonpublic entities to elect to be considered a single reporting unit.
- Permit nonpublic entities to amortize goodwill.

We also suggest that the Board clarify the relationship between the proposed qualitative assessment requirements and the existing requirements for interim impairment testing and for interim and annual testing of a reporting unit with a zero or negative carrying amount.



Those recommendations are discussed in our responses to the questions for respondents that follow.

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

Grant Thornton LLP is the U.S. member firm of Grant Thornton International Ltd, one of the world's leading organizations of independently owned and managed accounting and consulting firms. These firms provide audit, tax, and advisory services to public and private clients around the globe. Grant Thornton LLP primarily serves clients that issue financial statements prepared in accordance with U.S. GAAP.

Grant Thornton LLP operates in 48 offices in the United States, employs approximately 5,000 people, and has revenues of more than \$1 billion. The member firms of Grant Thornton International Ltd operate in more than 100 countries, employ approximately 30,000 people, and have combined annual revenues of approximately \$4 billion. Our firms are focused on both public and private entities.

Question 4: 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 do not believe that the proposed amendments would reduce overall costs and complexity compared to the existing guidance.

We are concerned that the guidance in the proposed ASU would be difficult to apply in practice and that the cost savings, if any, would be offset by the additional efforts required by preparers and their auditors to implement the guidance. For example, the costs and complexities of the current fair value measurements cited in Paragraph BC29 of the Basis for Conclusions in the proposed ASU include

- The level of efforts to audit various inputs and assumptions used in the fair value calculations
- The challenge of identifying comparable entities for a market approach valuation of reporting units with unique characteristics and the resulting reliance on a more costly income approach

We believe that similar audit efforts and challenges exist for the proposed qualitative assessment of the likelihood and extent of a change in fair value in relation to the carrying amount of a reporting unit. Fair value is a market concept; therefore, market-related information and assumptions would also be relevant to a qualitative assessment. In comparison to public entities, nonpublic entities are likely to face additional costs and challenges under both the existing and the proposed impairment test models because of differences in the nature of information available, such as a public entity's share price.



The proposed qualitative assessment would introduce significant judgment into the impairment test and would present challenges to both preparers and auditors to support their conclusions. A qualitative assessment would become less effective and less relevant as more time elapses since the date of the last quantitative assessment. Therefore, we believe that fair value calculations would likely be required in practice to supplement a qualitative assertion more often than the Board anticipates, notwithstanding the proposed elimination of a specific requirement to do so.

Both the current impairment test model and the proposed qualitative assessment may produce similar results when it is obvious that goodwill either has not been impaired or has been impaired by the occurrence of a single catastrophic event. However, as noted in Paragraph B141 in the Basis for Conclusions for FASB Statement 142, *Goodwill and Other Intangible Assets*:

Board members observed that goodwill impairments generally do not occur suddenly but occur as a result of a series of events that might not be captured by a list of impairment indicators. An annual test would provide a safety net for impairments that arise as the result of a series of events.

If impairment is gradual or the result of a series of events, we believe that the proposed qualitative assessment would be less likely than the existing guidance to require a full impairment test on a timely basis. Without a periodic valuation benchmark for reference, the qualitative assessment alone may not be sufficient to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. Even if the assessment indicates that a reporting unit's fair value has decreased, it might be difficult to qualitatively assess the likely extent of that decrease in relation to the reporting unit's carrying amount in the absence of historical information on the spread between the fair value and carrying amount. In such circumstances, an entity might find it necessary to perform fair value calculations to support its qualitative assessment.

Recommendations

We do not support the proposed elimination of a requirement to perform a periodic fair value calculation to support an entity's qualitative assertions. Instead, we suggest that the Board consider the following provisions to reduce the cost and complexity of accounting for goodwill:

• Lower the threshold for carrying forward an entity's detailed fair value calculation, with an explicit limit on carryforward periods. This guidance should be applicable to both public and nonpublic entities. The existing criteria for carrying a valuation forward are often too restrictive to be useful in practice. For example, the threshold for requiring step 1 of the impairment test between annual tests is a determination that the fair value of a reporting unit is more likely than not less than the carrying amount. However, to carry forward a prior-year valuation, the likelihood that the fair value is less than the carrying amount must be remote. We believe



that there is clearly room for relaxing the carryforward criteria for both public and nonpublic entities in a manner that would allow for increased use of the option and cost reductions, without incurring undue risk that impairment losses would not be identified in a timely manner. That risk could be mitigated by limiting the number of periods that a valuation could be carried forward, for example, by requiring a fair value calculation at least once every three years.

Permit nonpublic entities to elect to be considered a single reporting unit. The identification of reporting
units requires application of the existing guidance that public entities must otherwise use to
identify operating and reportable segments for disclosure purposes. Thus, the identification
of operating segments is an additional cost and complexity of goodwill accounting only for
nonpublic entities.

Permit nonpublic entities to amortize goodwill.

As previously indicated, nonpublic entities are likely to face additional costs and challenges under both the existing and the proposed impairment test models because of differences in the nature of information available. In our view, an opportunity to provide a reasonable response to nonpublic entities' request for a reduction in the cost and complexity of U.S. GAAP in the near term should not be dismissed solely because of concerns about further divergence from IFRS. Although we appreciate the Board's concerns about divergence, we believe this concern is mitigated by the lack of clarity concerning if or when full IFRS would be required for nonpublic entities.

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?

As discussed in our response to Question 4, without a periodic valuation benchmark for reference, we believe that the qualitative assessment may not be sufficient to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. Therefore, even an enhanced list of example events and circumstances would not be adequate to fully address our concerns. However, we believe that the proposed examples, and the context in which they would be considered, should be clarified. See our response to Question 7.

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?

Proposed qualitative assessment option

If amended by the proposed ASU, *FASB Accounting Standards Codification* [M (ASC) 350-20-35-3, *Intangibles–Goodwill and Other: Goodwill*, would permit an entity to assess qualitative factors to determine whether the two-step impairment test is required, that is, to determine if it is more



likely than not that the fair value of a reporting unit is less than its carrying amount. As proposed, Example 4, Note 1, in ASC 350-20-55-25 would state that an entity shall have the option to skip the qualitative assessment and proceed to step 1 of the impairment test.

We believe that the proposed guidance may not be clear on whether the qualitative assessment would be optional for impairment tests other than the annual test of a reporting unit with a positive carrying amount. Under the existing guidance in ASC 350-20-35-8A and 35-30, an assessment of qualitative factors is the basis for the determination of whether an event has occurred or circumstances have changed to the extent that would require a reporting unit to be tested for impairment between annual tests and a reporting unit with a zero or negative carrying amount to be tested on an interim or annual basis. In those circumstances, a qualitative assessment is a requirement, not an option, although it may not be clear whether all of the proposed qualitative assessment guidance would also apply.

New qualitative assessment guidance

The new qualitative assessment guidance in proposed ASC 350-20-35-3F would require consideration of all "relevant events and circumstances"—including both "adverse factors" as well as "positive and mitigating events and circumstances"—to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. As proposed ASC 350-20-35-3C would provide examples of events and circumstances relevant to the new qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Most of the proposed examples appear to be expressed as adverse factors—identified by words such as "deterioration," "negative," "decline," and "decrease"—that could indicate possible impairment. However, some of the examples—such as "change in the carrying amount of net assets and change in management, key personnel, strategy, or customers"—could be either positive or adverse, depending on the circumstances. For example, a change in customers could refer to the loss (adverse) or addition (positive) of a major customer. Thus, the examples appear to reflect the range of events and circumstances that could be relevant to the assessment, which would not be limited to only adverse factors / impairment indicators.

The proposed amendments would replace the current examples of impairment indicators in ASC 350-20-35-8A and 35-30 with a cross-reference to the examples in ASC 350-20-35-3C. However, as previously noted, the proposed list of examples does not appear to be limited to impairment indicators (that is, adverse factors). Therefore, it may not be clear in the proposed ASU whether all of the new examples would be relevant to the guidance in ASC 350-20-35-8A or 35-30, or how the examples that are not clearly impairment indicators should be considered in the context of the assessments required by ASC 350-20-35-8A and 35-30. For example, ASC 350-20-35-8A specifically requires consideration of adverse qualitative factors, without mention of positive or mitigating factors, in the impairment assessment of a reporting unit with a zero or negative carrying amount.



Recommendations

We recommend that the Board clarify the relationship between the proposed qualitative assessment guidance in ASC 350-20-35-3A through 35-3G and the existing guidance in ASC 350-20-35-8A and 35-30, as follows:

- Clarify when a qualitative assessment may be used and in what way, if any, it would differ in practice from the existing interim assessment requirements.
- Resolve inconsistencies and clarify the relevance of examples referenced in ASC 350-20-35-8A and 35-30.

We also recommend that the Board review examples of impairment indicators for testing long-lived assets to ensure they are consistent with any new impairment indicators adopted for goodwill testing and, if necessary, revise the guidance in ASC 360-10-35-21, *Property, Plant, and Equipment*, as appropriate.

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.

See our response to Question 4.

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

| We agree with the effective date provisions | s of the proposed | ASU. |
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We would be pleased to discuss our comments with you. If you have any questions, please contact L. Charles Evans, Partner–Accounting Principles Consulting Group, 832.476.3614, and Charles.Evans@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP