2012-100
Comment Letter No. 5

The Association of
Accountants and
Financial Professionals
in Business

March 9, 2012

Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Proposed Accounting Standards Update, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* (File Reference No. 2012-100)

Dear Leslie:

The Financial Reporting Committee of the Institute of Management Accountants ("FRC") is writing to provide its views on the Proposed Accounting Standards Update, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. Overall, we support the Board's efforts to simplify how an entity is required to test indefinite-lived intangible assets for impairment by permitting an assessment of qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test currently required in Subtopic 350-30 on general intangibles other than goodwill. Further, we would like to see the International Accounting Standards Board ("IASB") consider the provisions of the proposed standard in a future amendment of IAS 36.

The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts[1]. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

In summary, we support an entity having an option to bypass the quantitative impairment test if the results of a qualitative assessment indicate it is more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying amount. While ASC 350-30-35 does not explicitly require that an entity commission an external valuation engagement to determine the fair value of an indefinite-lived intangible asset, in practice this is what often takes place. Accordingly, in situations where an indefinite-lived intangible asset's fair value has recently been determined to exceed its carrying value, and no significant adverse changes have occurred since then, it would be more cost effective for an entity to apply the qualitative assessment to comply with the annual testing requirements of ASC 350. Further, we agree with the Board's decision to permit an entity to skip the performance of the qualitative assessment and proceed directly to the quantitative assessment in a particular period. This option provides an entity with increased flexibility when the entity determines it would like to conduct a

[1] Additional information about the IMA Financial Reporting Committee can be found at www.imafrc.org.

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quantitative assessment without the burden of having to document why it may not have elected to conduct one in prior periods.

The FRC recognizes that the proposed standard does not improve convergence with International Financial Reporting Standards ("IFRS"). Nevertheless, because of the practice improvements that are expected to result from its application, we support its issuance. In addition, we are hopeful that the IASB also embraces the provisions in the proposed standard and considers them for a possible amendment to IAS 36 in the near future, thereby advancing convergence on this matter.

See Appendix A for our responses to the detailed questions presented by the Board.

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We appreciate the Board's consideration of these comments and are available to discuss these matters at your convenience. You can reach me at (212) 664-1733.

Sincerely,

Allan Cohen

Allan Cohen
Chairman, Financial Reporting Committee
Institute of Management Accountants

cc: Hans Hoogervorst, IASB Chairman

APPENDIX A

The following are our responses to the detailed questions presented by the Board:

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). In addition, include a description of the type of indefinite-lived intangible assets held by your entity.

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 are you most focused (for example, debt or equity).

The FRC is the financial reporting technical committee of the IMA and has members representing each of the categories, including preparers of financial statements for public and private entities, including some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts.

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.

Yes. We believe preparers whose indefinite-lived intangible assets have fair values significantly in excess of book value would not need to obtain an annual formal third-party valuation as frequently, thereby saving costs and generating efficiencies in financial reporting. Even preparers who do not conduct a formal third-party valuation engagement will undoubtedly realize some degree of savings in the form of reduced internal costs for developing discrete financial projections and determining relevant valuation assumptions. Further, to some degree, we also believe that external audit costs related to a qualitative review should be less than those associated with a formal quantitative review.

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 quantitative impairment test? Please explain.

We believe that the majority of entities with indefinite-lived intangible assets whose fair values exceed their carrying value will perform the qualitative assessment and if successful, forgo performing a formal valuation analysis. We do expect that in some periods, perhaps to update a previous "baseline" assessment, some entities may elect to skip the qualitative assessment and proceed directly to the quantitative assessment. We expect this approach to vary by company and industry but in any case, the qualitative approach will provide increased flexibility in financial reporting and result in lower costs. We would expect that entities with indefinite-lived intangible assets where the most recent quantitative analysis indicated that the fair value of the indefinite-lived intangible assets did not significantly exceed their respective carrying amounts will perform the quantitative analysis. This could occur, for example, in the initial period(s) subsequent to an acquisition of an indefinite-lived intangible asset or when an impairment charge was recently recorded for an indefinite-lived intangible asset.

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?

The auditors on our committee believe that for many entities, costs and complexity will be reduced by the application of the proposed guidance, whether the entity is public or nonpublic. While an entity's use of the qualitative assessment will undoubtedly introduce additional judgments for both preparers and auditors, the application of judgment is not uncommon for preparers and auditors. However, as has been observed in the application of the new goodwill qualitative test, a qualitative approach does require documentation of the significant judgments necessary to support the qualitative analysis. Thus, the application of a qualitative approach is not without some cost and effort to support these judgments. Another factor in the ultimate application of the proposal will be the views of the regulators. At this point, it is unclear what the views of regulators (e.g., SEC, PCAOB) will be with respect to an entity's use of the qualitative assessment (given the varying circumstances that could be encountered) and the level of documentation that would be expected to support the conclusions reached. Clearly, the acceptance of reasonable judgments by the regulators will influence whether costs and complexity are sufficiently reduced under the proposal.

Question 5:
For users, how do you believe that the optional qualitative approach for evaluating indefinite-lived intangible assets for impairment will affect the timing of the recognition of impairment losses? Additionally, will the optional qualitative approach affect how you evaluate indefinite-lived intangible assets reported in the financial statements? If yes, please explain.

The financial statement *preparers* on our committee do not believe that the availability of the qualitative approach for evaluating indefinite-lived intangible assets for impairment would delay the recognition of an impairment loss as compared to current GAAP. This group indicates that in instances where the fair value of an indefinite-lived intangible asset is expected to approximate its respective carrying amount, or where the difference between fair value and carrying value is not expected to be significant, companies will perform the full quantitative analysis. However, the financial statements *users* on our committee believe that, in certain instances, the qualitative approach for evaluating indefinite-lived intangible assets for impairment could delay the recognition of an impairment loss as compared to current GAAP. This group believes a preparer's reasonable judgment when applying the qualitative test is inherently more likely to be subsequently proven incorrect (e.g., preparer concludes it is more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying amount when in fact it does not), than the quantitative test required under current GAAP. However, users also observed that the impairment of an indefinite-lived intangible asset is more likely a trailing indicator of problems in a business, effectively affirming what the users of the company's financial statements already know or suspect. In limited circumstances, however, the impairment of an indefinite-lived intangible asset might highlight a weakness that users may not have otherwise been aware of. On balance, the financial statement users on our committee believe that the benefits of reducing complexity in GAAP are likely more important than the risk that an impairment is delayed and, accordingly, believe the Board should proceed with finalizing this project.

Question 6:
Do you agree that the proposed examples of events and circumstances in paragraph 350-20-35-3(a) through (e) are helpful in assessing whether significant inputs to the fair value measurement have changed significantly to indicate that it is more likely than not that an indefinite-lived intangible asset is impaired? If not, what additional examples of events and circumstances do you suggest?

We agree that the proposed examples appear to be helpful.

Question 7:
Do you agree that nonpublic entities should be exempt from disclosing quantitative information about significant unobservable inputs used in measuring the fair value of an indefinite-lived intangible asset as required in paragraph 820-10-50-2(bbb), as amended by Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs?* If not, please explain why?

Yes, although we question the cost/benefit analysis of the disclosure by any entity, public or nonpublic. While we understand the impetus for not disclosing quantitative information about significant unobservable inputs used in measuring the fair value of an indefinite-lived intangible asset was from preparers of nonpublic company financial statements, the issues of cost and complexity are similarly experienced by preparers of public company financial statements.

Question 8:
Do you agree with the proposed effective date provisions? If not, please explain why.

We agree with the proposed effective date provisions as well as the ability to early adopt the proposed standard. However, we recommend additional clarity be communicated about a company's ability to adopt these amendments as of a testing date prior to the issuance of the final Accounting Standards Update. Some have asked whether this alternative implied that the new guidance could be adopted prior to completion of the Board's due process, which seems to be an unusual alternative and we therefore believe constituents would benefit from additional clarity around the Board's intentions.