

April 24, 2012

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

File Reference No. 2012-100

Re: Proposed Accounting Standards Update, *Testing Indefinite-Lived Intangible Assets for Impairment*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed ASU *Testing Indefinite-Lived Intangible Assets for Impairment*.

We appreciate the concerns raised by preparers regarding the cost and complexity of calculating an indefinite-lived intangible asset's fair value and support the FASB's objective to simplify how an entity tests these assets for impairment. However, although we generally support the proposed ASU, we believe that the Board could improve its effectiveness by clarifying and expanding on certain aspects of its guidance.

Setting Realistic Expectations Regarding Potential Reduction in Costs and Complexity

A qualitative model may sometimes reduce the cost and complexity of performing the annual impairment analysis for indefinite-lived intangible assets, particularly when an entity has recently determined the fair value of the indefinite-lived intangible asset (i.e., an entity has a recent "baseline") and the fair value exceeds the carrying amount by a significant margin (i.e., a "cushion"). Analyzing the potential effects of current conditions, events, and other factors on the baseline measure of fair value and the cushion is an important step toward evaluating whether an indefinite-lived intangible asset may be impaired. When (1) the baseline fair value determination is relatively recent; (2) there is a significant cushion; and (3) current conditions, events, and other factors appear to have added to, or at least not to have eroded, the cushion, the costs of preparing the proposed qualitative analysis may be significantly less than they are when an entity quantitatively determines the fair value.

However, in many instances, management will need to perform a robust analysis of the qualitative factors to support its assertion that an indefinite-lived intangible asset is not impaired; such an analysis, while appropriately required, could mitigate the cost savings and reduction in complexity under the proposed ASU. For example, the proposed qualitative analysis may not reduce cost and complexity when entities have not recently established a baseline fair value

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calculation for each indefinite-lived intangible asset. We have observed certain instances in which early adopters of ASU 2011-08¹ relied on a baseline fair value calculation for a reporting unit that was not recently calculated, resulting in additional procedures for both the early adopter and its auditors. An entity may also need to engage valuation specialists to help management perform the qualitative analysis.

Therefore, because entities applying the proposed ASU will often need to perform a comprehensive analysis and incur additional costs to assert compliance with the principle that it is more likely than not that an indefinite-lived intangible asset is not impaired, the Board should not overemphasize the potential of the proposal's qualitative model to lead to cost savings and reduction in complexity. Overemphasis could lead to inadequate tests and inconsistent application.

Clarifying Expectations Regarding the Qualitative Assessment

As noted above, since the qualitative analysis will often hinge upon a baseline fair value figure, it is important that a substantial amount of time has not passed from the date of the most recent baseline fair value calculation to the impairment test date. Paragraph BC12 of the proposed ASU's Basis for Conclusions states, in part:

The Board also acknowledges that the more time that elapses since an entity last calculated the fair value of an indefinite-lived intangible asset, the more difficult it may be to make a conclusion based solely on a qualitative assessment of relevant events and circumstances.

We recommend that this paragraph be included in the final standard and that it specify the appropriate length of time between the most recent quantitative fair value calculation and the impairment testing date. In addition, we suggest the Board consider that more frequent updates of the quantitative fair value calculation of an indefinite-lived intangible asset may reduce complexity, since analyzing the qualitative factors against a more current baseline can be less complex than analyzing the same qualitative factors against a much older baseline.

If the fair value baseline amount was recently calculated, management will still need to perform a robust qualitative analysis and, upon adopting the standard, will need to document changes to processes and controls to support this analysis. Under the proposed qualitative analysis, "an entity shall consider the extent to which each of the adverse events and circumstances identified could affect the fair value of an indefinite-lived intangible asset." To do this, an entity will most likely need to evaluate the adverse events and circumstances in the context of the significant assumptions used to determine the baseline fair value calculation. This analysis would include both qualitative and quantitative considerations. For example, the entity may need to perform a quantitative analysis to determine whether there has been a significant change in revenue and, if so, how this change may affect the entity's long-term growth rate and other assumptions that are significant to the determination of fair value. Therefore, to support an assertion that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than the carrying amount, an entity will need to prepare a qualitative analysis that is supported by quantitative considerations. Accordingly, referring to the analysis simply as qualitative may be misleading to constituents. The Board should clarify its expectations in this regard.

¹ FASB Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment*.

Furthermore, without evaluating the significant assumptions that are relevant to the determination of fair value, it may be difficult for entities to reasonably determine how adverse factors may affect the fair value of an indefinite-lived intangible asset, particularly as more time passes since the last fair value calculation. Because most entities have historically engaged valuation specialists to determine or evaluate these assumptions, we believe that the use of valuation specialists would most likely continue under the proposed model. Since this evaluation is subjective, we recommend that the final standard include implementation guidance on determining the level and extent of supporting documentation needed to corroborate an entity's assertion that it is more likely than not that the indefinite-lived intangible asset is not impaired. As an example of such implementation guidance, if an entity identifies the royalty-rate assumption as a key driver of fair value measurement in the most recent quantitative fair value calculation of an indefinite-lived trademark, the Board should consider clarifying whether the entity's internally developed conclusion about this valuation assumption would be sufficient to support a qualitative assessment or the entity should obtain more substantial support about this assumption in the current year by either consulting with a valuation specialist or verifying the assumption by examining relevant market evidence.

Differentiation Between Annual Test and Interim Test

It appears that the proposed ASU would require entities to continually evaluate the qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount (i.e., whether an indefinite-lived intangible asset may be impaired). Under current GAAP, entities perform an analysis in each reporting period to determine whether an interim impairment test is needed; however, the annual test focuses on a quantitative calculation. In the absence of any trigger or indication otherwise, the qualitative interim analysis is clearly distinguished from the quantitative annual test.

Under the proposed model, it is currently not clear how an entity's annual test would be distinguished from its interim analysis. An entity that elects to perform the qualitative screen would apparently be required to perform the same analysis on its annual testing date as it would in every other reporting period. However, we believe that the level and extent of documentation and evaluation required for interim assessments would differ from the requirements for the annual qualitative screen. If the Board intends such a difference, we think that it should be clearly highlighted in the final standard.

Disclosures to Enhance Comparability of Financial Statements

Because the proposed model (i.e., the qualitative screen) is optional, it may decrease financial statement comparability between entities as well as within the entity itself, since it could be applied differently from indefinite-lived intangible asset to indefinite-lived intangible asset and from reporting period to reporting period.

As previously discussed in our comment letter on ASU 2011-08, we recommend that the Board consider requiring additional disclosures regarding an entity's impairment analysis to mitigate some of the loss of financial statement comparability. We believe certain disclosures should be required for each indefinite-lived intangible asset, regardless of whether the entity performed the qualitative analysis or calculated the asset's fair value. Examples of such disclosures may include:

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- The indefinite-lived intangible assets for which the entity quantitatively calculated the fair value because the entity determined it was more likely than not that the fair value of the indefinite-lived intangible asset is less than the carrying amount.
- A discussion of the degree of uncertainty associated with the fair value of an indefinite-lived intangible asset and a description of potential events or circumstances that could reasonably be expected to negatively affect the fair value of the indefinite-lived intangible asset.

Such disclosures would help users understand the entity's assessment of the qualitative factors and serve as an early warning for a potential future impairment. We believe that such disclosures should be required for both public and nonpublic entities.

Broader Reconsideration

We support the FASB's efforts to limit further divergence from IFRSs. As noted in the proposed ASU's Basis for Conclusions, the Board considered an alternative to amending the testing of indefinite-lived intangible assets other than goodwill for impairment, which would have improved consistency with IAS 36.² We encourage the FASB to work with the IASB in a future project to perform a broader review of the guidance on goodwill and other indefinite-lived intangible assets to identify additional topics on which to develop improved, converged guidance.

The appendix below contains our responses to the proposed ASU's questions for respondents. We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Stuart Moss at (203) 761-3042.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

² IAS 36, *Impairment of Assets*.

Appendix

Deloitte & Touche LLP Responses to Questions for Respondents

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?

We appreciate the efforts of the FASB to develop a qualitative model for performing the annual impairment analysis. However, we believe that the proposed qualitative analysis often will not result in a material reduction in cost and complexity for preparers and auditors, specifically when a baseline is not relatively recent (if we assume that certain entities analogized to the carryforward option under the goodwill guidance that was in effect before the adoption of ASU 2011-08). We recommend that the proposal include guidance on the frequency of updating the baseline quantitative fair value calculation. Because the proposed ASU would require an entity to evaluate the effects of events and circumstances on the quantitative fair value baseline calculation for each indefinite-lived intangible asset, the baseline fair value amount is an important piece of the analysis. If a significant amount of time has elapsed since the most recent baseline fair value calculation and the impairment analysis date, the qualitative analysis may not sufficiently support the entity's assertion that an indefinite-lived intangible asset is not more likely than not impaired. For example, we have observed that certain early adopters of ASU 2011-08 were relying on a baseline fair value that was not recently calculated, as a result of which both the entity and its auditors had to perform additional procedures to support the assertion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. We recommend that the proposed ASU clearly specify the appropriate length of time between the calculation of the baseline fair value of the indefinite-lived intangible asset and the current-period impairment testing date because we believe such guidance would significantly help preparers and auditors apply the qualitative analysis.

Furthermore, under the current proposal, auditors would need to obtain sufficient appropriate audit evidence supporting the entity's conclusion about whether the fair value of the indefinite-lived intangible asset is not more likely than not less than its carrying amount. In addition, valuation specialists may still be needed to participate in audit procedures to evaluate the impact of adverse factors on the assumptions that are significant to the fair value calculation. Because of the subjectivity of the qualitative assessment, this evaluation may be more intensive than the current analysis of the quantitative determination of fair value, thereby increasing preparers' audit costs. We do not believe that audit procedures (and therefore the extent of cost savings and reduced complexity) for public entities would differ from those for nonpublic entities.

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.

We think that the proposed model may result in some loss of financial statement comparability for users. Because the proposed model (i.e., the qualitative screen) is optional, it may decrease comparability between entities as well as within the entity itself, since it could be applied differently from indefinite-lived intangible asset to indefinite-lived intangible asset and from reporting period to reporting period.

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As previously discussed in our comment letter on ASU 2011-08, we recommend that the Board consider requiring additional disclosures regarding an entity's impairment analysis to mitigate some of the loss of financial statement comparability. We believe that certain disclosures should be required for each indefinite-lived intangible asset, regardless of whether the entity performed the qualitative analysis or calculated the fair value. Such disclosures would help users understand the entity's basis for the method it selected (i.e., quantitative or qualitative fair value assessment) and would serve as an early warning for a potential future impairment. Further, these disclosures should be required for both public and nonpublic entities.

Question 6: Do you agree that the 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 generally believe that the proposed qualitative factors are adequate. However, the Board should consider incorporating implementation guidance on the assessment of these factors into the final standard. In particular, we recommend that the Board include additional guidance on the extent of the analysis an entity should perform when assessing each of the qualitative factors to support its assertion that an indefinite-lived intangible asset is not impaired. We believe that such additional guidance would improve the consistency of an entity's supporting documentation. Moreover, implementation examples illustrating how to weigh the qualitative factors and when the "more-likely-than-not" threshold is met may help entities and their auditors evaluate the factors and determine the steps they need to take to support management's assessment of whether the fair value of the indefinite-lived intangible asset is not more likely than not less than its carrying amount. As an example of such implementation guidance, if an entity identifies the royalty-rate assumption as a key driver of fair value measurement in the most recent quantitative fair value calculation of an indefinite-lived trademark, the Board should consider clarifying whether the entity's internally developed conclusion about this valuation assumption would be sufficient to support a qualitative assessment or the entity should obtain more substantial support about this assumption in the current year by either consulting with a valuation specialist or verifying the assumption by examining relevant market evidence.

In addition, though we generally believe that the guidance on assessing the relevant events and circumstances is clear, it is not clear what would distinguish an entity's annual test from its interim analysis. The current proposal seems to require entities that elect the qualitative screen to perform the same analysis on their annual testing date as they would in every other reporting period. However, we believe that the level and extent of the documentation and evaluation required for interim assessments would differ from those required for the annual qualitative screen. If the Board intends such a difference, it should be clearly highlighted in the final standard.

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.

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We believe that this exemption should apply to both public and nonpublic entities in a manner consistent with the goodwill impairment amendments in ASU 2011-08, which allows an exemption from the quantitative disclosure requirements in ASC 820-10-50-2(bbb) for both public and nonpublic entities. If the Board intends to grant this exemption only to nonpublic entities under the proposed ASU, we would recommend that the Board indicate, in the proposal's Basis for Conclusions, why it is extending the exemption to both public and nonpublic entities in its standard on goodwill impairment testing but not in its proposal on testing indefinite-lived intangible assets for impairment.

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

We believe that the proposed effective date provisions are reasonable.