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Susan M. Cospers, CPA  
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**Re: January 25, 2012 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* [File Reference No. 2012-100]**

Dear Ms. Cospers:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC is comprised of 13 auditors from CPA firms of varying sizes ranging from less than 10 professionals to more than 1,000 professionals. All member firms focus on audits of nonpublic entities; eight firms also audit public companies or public employee benefit plans.

TIC has reviewed the ED and is providing the following comments for your consideration.

### **GENERAL COMMENTS**

TIC is fully supportive of the Board's proposal to introduce a qualitative option for testing indefinite-lived intangible assets for impairment. TIC believes this option will provide welcome relief for many entities from the cost and complexity of computing the fair value of these assets on an annual basis. TIC is suggesting some amendments to the ED to improve the guidance surrounding the application of the qualitative option to mitigate potential diversity in practice.

### **SPECIFIC COMMENTS**

TIC's responses to the questions for auditors are as follows:

**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?*

TIC believes the proposed amendments will result in considerable savings in cost and time for those nonpublic entities that are able to use the qualitative option to positively assert that indefinite-lived intangible assets are not impaired, as defined in the proposal. Nonpublic entities that already have a process in place to assess and document the ongoing profitability of their indefinite-lived intangible assets will probably achieve the greatest cost savings.

Certain entities without such processes in place will certainly benefit from the proposed amendments but will incur some cost and time to generate support for their assertions. The difficulty in applying the qualitative option could also vary depending on the entity's growth stage. Start-up companies would tend to have more volatility in their operations compared to an established company that has achieved greater stability. As a result, certain companies may be unable to make a positive assertion about the lack of impairment based on the qualitative assessment and therefore would have to calculate the fair value of the indefinite-lived intangible asset as part of the quantitative assessment.

If an entity already knows it must perform the quantitative assessment, the costs will be approximately the same. For example, TIC members have found that the need for a quantitative assessment may be so obvious that the qualitative assessment serves little or no purpose. Some nonpublic entities will therefore elect to bypass the qualitative option entirely, go directly to step 2 of the impairment test and calculate the fair value of the indefinite-lived intangible asset.

While the qualitative option may not always be a simple hurdle or may not be applicable in certain cases, the proposed amendments are welcome for their potential to simplify the assessment of impairment for many 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?*

TIC acknowledges that the proposed amendments cannot include an exhaustive list of examples. However, the examples provided in paragraphs 350-20-35-3(a) through (e) are insufficient to ensure that entities with similar circumstances would reach a consistent set of conclusions.

TIC recommends the ASU include guidance that expands on performing the qualitative analysis as described in paragraph 350-30-35-18B:

*An entity shall assess all relevant events and circumstances that may affect the significant inputs used in determining the fair value of the indefinite-lived intangible asset.*

This guidance could be elaborated to describe how to retrospectively evaluate the significant inputs that were used in determining the original fair value of the indefinite-lived intangible asset.

Additionally, an example for applying the guidance would be helpful for the preparer of the qualitative analysis and ideally results in different preparers reaching consistent conclusions when presented with the same information. For example, an indefinite-lived intangible asset was originally measured using a combination of inputs, the more significant of which included interest rate, sales volume and gross margin. To apply the qualitative option, the entity would prepare a retrospective analysis comparing the actual assumptions against the estimated assumptions and then evaluate the comparison. If the actual assumptions changed adversely when compared to the estimated assumptions and the entity is not able to make a positive assertion that it is more likely than not that the indefinite-lived intangible asset is impaired, then the preparer would proceed to the quantitative analysis. If the assumptions were consistent with actual results or changed positively, then the preparer would not be required to take further action.

Please see the Other Comments section below for other suggestions to clarify the application of the qualitative option.

**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.*

TIC agrees with the proposed exemption for nonpublic entities.

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

TIC agrees with the proposed effective date provisions.

### **Other Comments**

#### **Additional guidance regarding the qualitative assessment**

The Basis for Conclusions includes guidance that would be useful in the main part of the standard to clarify the application of the qualitative assessment. Each of the italicized sentences below describes an important indicator that the qualitative assessment would not be sufficient and that a fair value calculation would be necessary.

- Paragraph BC9, last sentence – Need for positive assertion:

*The Board also acknowledges that an entity would assess the reliability of the factors evaluated during the qualitative assessment and that if it would not be possible for an entity to make a positive assertion that it is not more likely than not that the indefinite-lived intangible asset is impaired, a fair value calculation should be performed.*

This sentence should be considered an essential part of the standard because it sets a decision threshold for preparers if they are unable to make a positive assertion about impairment based on the qualitative test. Moving this sentence to paragraph 350-30-35-18F would also assist practitioners in advising clients about the circumstances that would trigger the need for the quantitative assessment.

- Paragraph BC12, last sentence – Outdated fair value calculations:

*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.*

The above sentence should be moved to paragraph 350-30-35-18C of the standard to emphasize the importance of having up-to-date information to appropriately apply the qualitative assessment.

Both of the above sentences clarify the intent of the standard and, if moved into the body of the standard, would mitigate diversity in practice.

### **Changes in the carrying amount of indefinite-lived intangible assets**

TIC also suggests additional guidance surrounding the following sentence in paragraph 350-30-35-18C:

*An entity also shall consider whether there have been any changes to the carrying amount of the indefinite-lived intangible asset in determining whether it is more likely than not that the intangible asset is impaired.*

This sentence may be confusing to those who are not familiar with the types of changes that could have occurred in the carrying amount of an indefinite-lived intangible asset. In TIC's experience, changes in the original carrying amount of these intangible assets would be a relatively rare occurrence. TIC therefore recommends that an additional sentence be added to this paragraph that either explains the nature of such changes or that refers to other paragraphs in the Codification that describe when changes in carrying amount could occur.

### **Editorial Comment**

Paragraph 350-30-35-18, 2<sup>nd</sup> sentence – There appear to be missing words within the phrase “amortization for impairment” in the second sentence of this paragraph. The phrase does not make sense as written:

*For an intangible asset that is not subject to **amortization for impairment**, an entity may first perform a qualitative assessment, ... , to determine whether it is necessary to calculate the fair value of an indefinite-lived intangible asset.*

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in cursive script, appearing to read "Karen Kerber".

Karen Kerber, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees