August 9, 2016

Technical Director
File Reference No. 2016-230
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Intangibles – Goodwill and Other (Topic 350), *Simplifying the Accounting for Goodwill Impairment*

Dear Technical Director:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, Intangibles Measurement (Topic 350), *Simplifying the Accounting for Goodwill Impairment* (the Proposed ASU). Bank of America Corporation (BAC) provides a diverse range of banking and non-banking financial services and products domestically and internationally. We are one of the largest banks in the U.S. in terms of total assets. As of June 30, 2016, we had consolidated assets of $2.2 trillion and goodwill of $70 billion.

While BAC supports the overall project to simplify the accounting for Goodwill, we recommend the Board consider the impairment model together with the subsequent accounting for goodwill. The Board has noted that it will address accounting for goodwill in the second phase of the project which may also include reassessment of the impairment model. We believe there is an inherent connection between the subsequent accounting for goodwill and testing for impairment and it is best if the deliberations for these accounting matters were done collectively. If done piecemeal, we believe the potential exists that deliberations in the second phase of the project could result in further changes to the impairment methodology and or reversal of decisions made as part of this exposure draft. The costs and complexities of implementing a change in accounting that is then subsequently changed or amended in a relatively short period of time would not outweigh the benefits of a single accounting implementation of an amended standard. In addition, financial statement users prefer consistency in accounting measures and having multiple changes to the goodwill accounting matter in lieu of deliberating all changes simultaneously doesn’t seem prudent. We therefore do not support the adoption of the Proposed ASU separately from the reconsiderations of the subsequent accounting model.

The Board noted that users indicated that the most useful information is knowing whether an impairment charge is warranted, not the precise amount of that impairment. Because of this last statement, we further do not support the Proposed ASU as we believe eliminating the more precise Step 2 calculation with a simplified measurement of impairment based on Step 1 could result in instances of recognizing goodwill impairment when none exists, which would mislead users on what the Board indicated as the most useful information. For example, a reporting unit could fail Step 1 but pass Step 2 if there is a significant difference between the carrying value and fair value of its assets and/or liabilities. BAC’s loan portfolio measured at amortized costs comprises approximately 40% of our balance sheet. In a scenario where Step 2 would be applied, the fair value of our loan portfolio would take into consideration expected credit losses, as well as the impact of changes in interest rates and impacts of market liquidity. During periods of financial stress (e.g.,
significant market volatility or lack of liquidity in the markets) the adjustment between amortized cost and fair value could significantly impact the outcome of our analysis. Requiring the measurement of impairment based solely on Step 1 results could result in recognizing goodwill impairment when the decreased market value is not related to the goodwill but market differences of the underlying assets and liabilities. Therefore, we do not believe removing Step 2 of the impairment test will improve the usefulness of the information provided to users of the financial statements due to the potential that entities could record a goodwill impairment that does not exist. We do not believe companies should sacrifice quality and usefulness of information for the sake of a simplification initiative.

If the Board proceeds with Phase I of the project, we recommend that the Board allow companies an option to apply Step 2 or perform Step 1 as a practical expedient for measuring impairment.

Our responses to specific questions posed in the exposure document follow in Appendix A.

We appreciate the opportunity to express our views in this letter. Should you have any questions, please feel free to contact Randall Shearer (980.388.8433) or me (980.387.4997).

Sincerely,

John M. James
Senior Vice President and Corporate Controller

cc: Paul Donofrio, Chief Financial Officer
    Rudolf Bless, Chief Accounting Officer
    Randall J. Shearer, Accounting Policy Executive
Appendix A – Selected Questions

**Question 1:** Do you agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test? Why or why not?

As described in the introduction to our letter, we do not support the Board’s proposal to eliminate Step 2 from the goodwill impairment test. In the Proposed ASU’s basis for conclusions paragraph 13, the Board acknowledged that calculating impairment by comparing the carrying amount of a reporting unit with its fair value in many cases could result in a less precise amount of goodwill impairment. In addition the Board stated that many users have indicated that the most useful information is knowing whether an impairment charged is warranted, not the precise amount of that impairment.

In our experience, companies and users are not only concerned with whether an impairment has occurred, but the identification of indicators of impairment and/or the amount of impairment charge. As noted above, removing Step 2 of the analysis could result in more instances of impairment when none exist. Additionally, there may be instances where the impairment measurement under the more precise Step 2 would be greater than that measured under Step 1. In this case, we believe solely requiring Step 1 as the measurement for impairment could have the unintended consequence of resulting in more instances of impairment over a prolonged period of time versus recognizing a single impairment determined under the Step 2 analysis. As an example, under a Step 2 analysis the entire goodwill balance that is impaired would be written off versus the impairment charge under a more simplified Step 1 may result in only the portion of the goodwill being written off related to the fair value decline compared to the carrying value of the reporting unit. If the reporting unit fair value continues to decline below the carrying value, the resulting effect is multiple write offs of the goodwill balance until it is reduced to zero, rather than the full write off that could have occurred if Step 2 was applied at the time the original impairment was identified. We fail to see how this would lead to an improvement in reporting, especially when the purported impairment is the result of a less precise basis of measurement.

We believe Step 2 allows companies a more precise measurement of whether a reporting unit is impaired and provides more useful information to users of the financial statements. As described above, we have significant concerns with the carrying value of the reporting unit being used as the basis for determining whether a reporting unit is impaired and providing the basis for measurement of the impairment in all circumstances.

**Question 2:** Should the requirement to perform Step 2 of the current goodwill impairment test be retained as an option? Why or why not? If the use of Step 2 is optional, should an entity be allowed to apply that option by reporting unit or should it be a policy election at the entity level applicable to all reporting units?

We recommend that the Board consider allowing companies to utilize Step 1 as a practical expedient to performing Step 2. This would allow companies to develop a more precise conclusion and measurement if they elect to do so. We believe it would be appropriate for companies to make an election to apply the practical expedient at a reporting unit level. This would enable companies to apply a cost effective approach for individual reporting units that do not have material goodwill balances.

Goodwill arises from unique acquisition transactions that are, by nature, not directly comparable. The goodwill impairment analysis involves estimates and judgements that are specific to the individual reporting units as defined by each individual organization. Today, under the existing goodwill guidance, companies may perform a range of valuation techniques to evaluate whether goodwill is impaired. Therefore, we do not believe allowing companies to have the option of performing a more precise impairment test (i.e., Step 2) would reduce comparability across companies.
**Question 5:** Should the guidance on deferred income tax considerations when determining the fair value of a reporting unit outlined in paragraphs 350-20-35-25 through 35-27 and illustrated in Example 1 and Example 2 be retained, or should this Subtopic rely on the fair value guidance in Topic 820, Fair Value Measurement? If the guidance on the tax structure is retained, what, if any, amendments are necessary to address the potential difference in the impairment charge calculated under the proposed amendments, depending on which tax structure is used in calculating the fair value of the reporting unit?

We recommend the Board retain the guidance on deferred income tax considerations. Selection of the tax structure that would be applicable in the measurement of a reporting unit will vary based on the specific facts and circumstances of that entity and could impact the results under Step 1 of the impairment analysis. While the tax consequences of a transaction may already be considered as part of the fair value guidance in Topic 820, Fair Value Measurement, removal of these considerations within ASC 350 may confuse preparers in that it may indicate that they are no longer relevant in determining the fair value of a reporting unit. As these considerations could affect the outcome of the Step 1 test, we believe it is relevant guidance that should be retained.

**Question 6:** Do you agree that the proposed guidance to remove Step 2 from the goodwill impairment test should be applied prospectively? Should there be specific transition guidance for companies that previously adopted the goodwill accounting alternative for private companies in current GAAP but decide to adopt this proposed guidance after it becomes effective?

As noted above, we do not support the proposal to remove Step 2 from the goodwill impairment test. If the Board decides to proceed with the proposal, we agree that the removal of Step 2 should be applied prospectively. For companies who are failing Step 1 of the analysis as of the date of adoption, we would recommend the Board consider allowing for a modified retrospective approach for adoption to allow the companies to record any day 1 impairment to equity as a cumulative effect of a change in accounting principle.

**Question 7:** How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

If the proposal to remove Step 2 is applied prospectively, we believe the amendments in the proposed update could be adopted in the near term, with early adoption permitted.

**Question 8:** Would the proposed amendments meet the Board's objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of financial statements? Why or why not?

We do not believe that the proposed amendments would meet the Board's objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of financial statements. For companies with a material amount of goodwill, Step 1 of the goodwill impairment analysis may already be complex and costly. Measuring the intangible value of an acquired business is inherently complex and becomes even more so over time when integrated within an organization. Unprecedented events like the the recent United Kingdom's vote to exit the European Union could cause interim market dislocations that add additional complexities and variables in estimating the fair value of a reporting unit as of a specific date (i.e., the annual test date). We are concerned that a test limited to Step 1 could result in an outcome that is not reflective of the value of a reporting unit.
In addition, we do not believe that elimination of Step 2 will significantly reduce costs. Many companies currently engage third party valuation specialists to assist them with the Step 1 test, and we believe that the increased reliance on Step 1 would lead more companies to do so with a resulting increase in costs for Step 1 that would offset any savings from the elimination of Step 2.

**Question 9:** Are there additional changes that should be made to the subsequent accounting for goodwill to meet this objective, including changes that might be considered in Phase 2 of the Board’s project?

In the future phase of the project, the Board expects to consider whether to make additional changes to the subsequent accounting for goodwill, including consideration of permitting or requiring amortization of goodwill and/or further changes to the impairment testing methodology. We are concerned that further deliberations in the second phase of the project could result in further changes to the impairment methodology and or reversal of decisions made as part of this exposure draft. Therefore, we strongly encourage the Board to consider alignment of any changes to the impairment model together with any changes to the subsequent accounting model for goodwill.