September 18, 2019
Attention: Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-720

Ladies and Gentlemen:

I am writing today as an individual investor in response to the ITC regarding accounting for intangible assets acquired in a business combination and subsequent accounting for goodwill (File Reference # 2019-720). I would like to express my alarm at the proposed accounting rule change. It is my understanding that the FASB is exploring options such as amortization of goodwill which would eliminate the need to test annually for goodwill impairment. I object to this proposed accounting change for 3 reasons.

The first reason is that goodwill is NOT a wasting asset. There are companies that build up goodwill over many years before getting acquired. Is it reasonable to believe that a company such as Coca-Cola or Kellogg’s have built up goodwill over a century and that if they were acquired the proposed accounting change would suggest that this goodwill is a wasting asset? This is illogical as for many companies, goodwill is an asset that will grow over time if management are good stewards of the business. In 1866, William A. Breyer started Breyers Ice Cream. In 1926 Breyers was acquired by National Dairy Products Corporation which latter changes its name to Kraft. Over 100 years after Breyers was started, in 1993 Unilever bought Breyers from Kraft. At each step, not only did the value of Breyers trade name increase in value, so did its infrastructure, industry expertise, its customer base, as well as its goodwill increased in value.

The second and more important issue is the useful information that the current impairment model provides to investors. If the purpose of financial statements is to provide useful information to investors, we cannot allow the amortization of goodwill. Amortization does not provide information nearly as useful as the current system of requiring impairment testing. When a company announces that they are taking an impairment charge, this provides information to investors that the acquired company did not perform according to the plan in place when management originally affected the transaction. There is an important “Information Component” to the announced impairment. If we permit the Company instead to simply amortize the acquired goodwill, then management can hide behind the curtain of amortization. The annual impairment test effectively holds management accountable for their past actions, and provides investors with additional comfort that Management will carefully evaluate existing and potential investments. While one might argue that negative information seeps out in quarterly financial statements; however, it does not become available to investors as quickly and clearly as it does under ASC 350. By keeping the current rules in effect, a company is required to report impairment as soon as there are “Impairment Indicators”. I believe that changing the rules will reduce the information available to the public investor and as a result reduce the overall safety of investing in public securities.

Lastly, not only do public investors gain important information when there is an impairment event, lenders and bond holders also get this important “Information Component” when there is an impairment declared by management. Despite the potential “add-back” of goodwill impairment for
purposes of bond covenant calculations, similar to investors in equity, investors in debt benefit equally from the information provided by goodwill impairment testing (particularly when evaluating a lending situation for an acquisitive company). Amortization of goodwill will do nothing but prevent these investors from properly evaluating the acquisition track record of management and the financial health of the subject company.

I recognize that FASB is concerned with the incremental costs to corporations of disclosing quantitative and qualitative information relating to goodwill impairment, I would argue that there is a much larger cost to the investing public if we lose the Information Component. Potentially billions of dollars are at stake if management is able to obscure poor performance behind the screen of amortization rather than the spotlight of an Impairment Disclosure.

In closing, I do not think FASB should approve the rule change as goodwill is not a wasting asset. Consequently, amortization of goodwill would hurt the investing public as well as lenders and bond holders.

Sincerely,

Neil C. Kelly, CFA