September 30, 2019

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

(Sent via e-mail to director@fasb.org)

Re: File Reference No. 2019-720

Dear Mr. Golden:

The International Business Machines Corporation (“IBM” or “the company”) appreciates the opportunity to comment on the Invitation to Comment: *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (the “ITC”), issued by the Financial Accounting Standards Board (“FASB”).

Overall, we are supportive of the project and appreciate the FASB’s efforts to continue to simplify the subsequent accounting for goodwill. This is a challenging area due to the costs and complexities involved in the impairment model, including the on-going determination of the fair value of reporting units. We believe the recent amendments to the accounting for goodwill have resulted in decreased costs, while at the same time maintaining usefulness of the financial reporting information for users. However, the current goodwill impairment model continues to impose fairly significant cost into the financial reporting system, even after the implementation of the optional qualitative screen and removing Step 2 of the impairment test.

The company supports goodwill amortization, with an impairment assessment only upon a triggering event, without the annual testing requirement. The current requirements for an annual impairment test require significant resources to test goodwill for impairment and document judgments even though there may have been no indication of impairment. However, we do understand that there are circumstances in which goodwill should be impaired which is why we recommend a model that would still require goodwill impairment testing upon triggering events. This would still provide decision-useful information to users of financial statements because goodwill would still be tested for impairment when there are triggering events. This would also align the accounting for goodwill and indefinite-lived intangibles to other assets, which are tested for impairment only if there is a triggering event. If the Board decides to replace the current goodwill impairment model with an amortization model with impairment testing at triggering events, we recommend the Board consider revising the impairment test to use the undiscounted cash flow approach in ASC 360-10. This would align the approach to be consistent with the methodology used to assess whether an amortizable intangible asset is impaired.

If the Board were to require an amortization model for goodwill accounting, we support a default amortization period approach, which also allows for management justification of an alternative amortization period other than the default. We support a default period longer than 10-15 years due to the fact that intangible assets associated with the acquisition may have a longer useful life, and it is our view that goodwill should not have a shorter useful life than those associated intangible assets.

Relative to the current impairment model, we support providing an option to test goodwill at the operating segment level as this would align with an external reporting structure and consistent with our management view. Under current guidance, goodwill must be tested at the reporting unit level. Significant costs are incurred in determining reporting units, assigning goodwill to reporting units and in determining the fair value of reporting units. We do not believe testing goodwill for impairment at the entity level is appropriate as one business unit could offset the poor results of another, likely resulting in fewer impairments, which could result in a loss of beneficial information for users of the financial statements. The company supports subsuming noncompete agreements (NCAs) into goodwill as these types of
agreements tend to align more closely with workforce assembly, which is currently included in goodwill and would allow for additional ease of reporting for preparers without eliminating benefits for users. However, we do not support amending current guidance related to customer-related intangible assets (CRIs) as these intangibles have their own useful lives that are aligned with expected future cash flows, which provides beneficial information to users of financial statements.

We do not support additional quantitative disclosures, such as: the key performance assumptions or targets supporting the acquisition and performance against those targets for several years following the acquisition, as it would require companies to track an acquisition’s performance against such targets. This would result in higher resource requirements and increased costs to track, validate, audit and provide the incremental disclosure. We do not believe that disclosing quantitative and qualitative information about the agreements underpinning material intangible items would be operable and would not provide significant decision-useful information for users. Tracking and disclosing these items could potentially require companies to provide competitively harmful information that they would not be disclosing otherwise. Additionally, in many cases it is simply not practical to identify this information as these items get combined or subsumed into existing operations post-acquisition.

If the Board decides to implement a goodwill amortization model, which we support, we believe it is appropriate to include disclosure on the amortization period used by the company, specifically if it is other than a default period.

Lastly, regarding comparability, we do not believe that noncomparability between the accounting for goodwill and intangible assets between public business entities (PBEs) and private or not-for-profit entities reduces the usefulness of financial reporting information as there are already comparability differences between PBEs and private entities. However, we do recommend that the FASB and IASB work together on the subsequent accounting for goodwill given the number of companies that utilize IFRS for their legal entity statutory reporting. If the FASB decides to move to an amortization model but the IASB continues to require an impairment model, many preparers will continue to have to incur the costs associated with that model and create additional inconsistencies with the consolidated results.

Thank you for the opportunity to comment on the ITC. If you have any questions, please contact me at (914) 765-5074.

Sincerely,
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