Dear Chairman Golden,

This letter is being submitted by Cummins Inc. in response to the Financial Accounting Standards Board’s (FASB or “the Board”) Invitation to Comment Identifiable Intangible Assets and Subsequent Accounting for Goodwill.

Cummins is a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and powertrain-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, transmissions, electric power generation systems, batteries and electrified power systems. We sell our products to original equipment manufacturers (OEMs), distributors, dealers and other customers worldwide. We serve our customers through a network of approximately 600 wholly-owned and independent distributor locations and over 7,600 dealer locations in more than 190 countries and territories.

Executive Summary

We appreciate the Board’s efforts to obtain input from stakeholders on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets. While we are supportive of changes to both the goodwill and intangible assets, we believe that the biggest benefit can be achieved in making changes to the subsequent accounting for goodwill. Specifically, we support a model that requires amortization of goodwill and impairment testing upon a triggering event. We would also support the PCA model for subsuming certain intangible assets into goodwill provided that an amortization approach for goodwill is selected. We provide more specific feedback on certain questions throughout the remainder of this letter.

Question 1: What is goodwill, or in your experience what does goodwill mainly represent?

We generally agree with the definition of goodwill as described in the basis of conclusions in Statement 141(R) that states that goodwill represents the fair value of the expected
synergies and other benefits from combining the acquirer’s and acquiree’s net assets and businesses. We do observe, however, that it is different on each deal and can represent both items that might theoretically diminish in value over time and those that do not.

**Question 2: Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information?**

While we appreciate the steps the Board has taken in recent years, we do not believe that the costs associated with the current goodwill impairment model, including the recent simplifications, justify the benefits. We do believe the simplifications have not detracted from the information provided to investors, but believe more can be done.

Under the current goodwill impairment model, we continue to incur costs associated with hiring third party valuation experts, developing cash flow forecasts, and determining discount rates associated with our annual goodwill impairment test. The qualitative screen discussed below eases the burden of performing the quantitative test each year, but even performing the qualitative screen can still prove to be costly and time-consuming due to the documentation required and review by the auditors. Even for reporting units that would otherwise likely suffice with a qualitative screen, we perform quantitative testing of reporting units on a rotational basis to have further support for the "cushion" between fair value and carrying value of the reporting unit. In situations where we perform the quantitative testing we have, in recent years, experienced significant additional time and costs associated with internal control testing of our forecasting process, which is causing a significant amount of additional documentation and internal/external testing requirements. While we have not had a goodwill impairment at Cummins, we observe that marketplace reaction would generally indicate that investors do not have any significant reaction to impairment charges incurred by companies. Rather these charges are generally excluded from primary performance metrics by both companies and investors. We have had similar reactions from our investors when incurring significant impairments of long-lived assets.

**Question 3: On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing?**

We support amortizing goodwill with impairment testing only if the impairment testing model were based on triggering events similar to the treatment of other long-lived assets. For many of the same reasons noted in Question 2, we believe the costs far outweigh the benefits. Annual goodwill impairment testing and the related documentation and control testing requires considerable time that could be spent on more strategic or value-added activities for the company. It also significantly increases the scope of work required by the auditors in both auditing the actual calculations and additional control testing when goodwill
is material, even when the risk of impairment is low. In recent years, we have observed both the PCAOB and auditors focus efforts on auditor testing over company's forecasting processes and controls, which has significantly increased the level of effort required on Step 1 testing. We have never taken a goodwill impairment charge, but have been subjected to an enormous amount of effort in this area over the years.

We do not believe users will be significantly impacted by this change. We note that the amortization of goodwill will likely lead to fewer impairments as the carrying value of the goodwill will decrease each year, making it less likely that the carrying value of goodwill exceeds its fair value. This would also lessen the magnitude of impairments when they do occur, which would lower volatility in financial statements, allowing for increased comparability.

While acknowledging views are mixed on this, we also believe there is some conceptual merit to amortizing goodwill. In most cases, companies receive benefits from goodwill over a specific period of time, often during the first several years following a transaction. This period of benefit varies depending on the specific transaction. In addition, many of the components of goodwill, such as assembled workforce and synergies, are not assets with indefinite lives. We believe that an amortization model appropriately allows companies to allocate the cost of goodwill over the period of time they are receiving its benefits to future operations. Additionally, impairment testing upon a triggering event would ensure that if there is a substantial decrease in the value of goodwill, it would be reflected independent of the amortization. This model would more accurately illustrate the value of goodwill, rather than only expensing large amounts of goodwill infrequently following impairment testing under the current model.

**Question 4: If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your responses and explain why you did not select certain characteristics.**

We primarily support an approach with a default amortization period that also allows for management justification of an alternative amortization period other than the default. We support the use of a default period primarily for simplification reasons to avoid the cost and time associated with developing and auditing a useful life for an asset that by definition is uncertain as to what it represents. However, we observe that each transaction is unique and may provide different benefits at differing materiality levels and as such, we believe that management should be able to elect to justify a different period for each acquisition rather than making a one-time policy election for all transactions. This approach might vary for each transaction depending on a variety of factors such as the nature and extent of expected synergies, a particular company's view of goodwill, the timing and size of the
transaction, market factors at the time of the transaction, and other potential reasons. It is important for management to have the option to use an amortization period that is not the default period if they believe that the goodwill created in a transaction will provide benefits to the company for a significantly shorter or longer period than the default period.

Due to the somewhat arbitrary nature of a default period, we would suggest a 15 year period to align with the tax rules. Aligning the financial accounting goodwill amortization period with the tax accounting goodwill amortization period would significantly decrease the amount of goodwill related deferred taxes which would simplify financial statements, specifically the tax provision, benefiting both users and preparers. While there may be benefits to other default periods, such as 10 years to align with the private company alternative, the simplification of a 15-year period, in our opinion, outweighs the benefits of comparability between public and private business entities provided by a 10-year period.

We would not be supportive of including a cap or a floor to the model as it would detract from a company’s ability to justify a period other than the default period and the justification requirement (and related auditing) would seem to alleviate the need for a cap or a floor. We would not necessarily be opposed to amortization based on the primary identifiable assets, but do not believe that is the best approach as it would not allow for the use of a different period when the facts and circumstances may indicate a much shorter or longer life. We do not support any of the other approaches mentioned as we believe they could introduce additional complexities that detract from the simplification effort.

**Question 5: Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period?**

In our view, the period is not necessarily as important as the method. We would not support a method that was overly complex or that required significant effort in determining the life. Given the somewhat arbitrary nature of the amortization period, we believe the simpler the better.

**Question 7: Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2017-04 reduce the decision usefulness of financial reporting information for users?**

We do not believe there is sufficient experience in which to address this question as the amendment has not been effective for very long. While we agree that eliminating Step 2 would theoretically reduce the costs of the impairment testing at least in the first year, we note that it has had no impact on us as we have never had to perform Step 2 of the testing. We believe that the vast majority of companies in a given year would never get to Step 2,
so it has very limited impact on the overall impairment testing process. We also observe that companies that are able to utilize the simplified Step 2 approach are more likely to find themselves having to repeat Step 1 in future years because the impairment would likely be smaller than the previous Step 2 approach and thus leave little cushion for future years.

**Question 8:** Do the amendments in Update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2011-08 reduce the usefulness of financial reporting information for users?

See response to Question 2 above.

**Question 9:** Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually?

We support goodwill impairment testing upon a triggering event rather than a requirement to test goodwill annually. Much of the cost of the current impairment model discussed above is a result of the requirement to test for impairment annually. The annual requirement forces companies to expend significant resources each year 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 suggest a model that requires goodwill impairment testing upon triggering events. We do not believe that this model would lead to users receiving less valuable information, because goodwill would still be tested for impairment after triggering events and, in the absence of impairment, amortization of goodwill would lead to increased comparability and consistency between companies.

**Question 10:** Relative to the current impairment model, how much do you support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)?

While we would be supportive of a model that tested impairment at the entity level, we believe testing at the segment level would be a better outcome. Testing at the entity level would rarely result in an impairment and could mask underperformance of a particular business. However, requiring testing at the segment level would better align with how management runs the business and would create synergies with the work already being done to determine operating/reporting segments. It significantly reduces the number of tests required, which will lower costs, but keeps the work at a level below the entity level, which we believe is sufficient for investors. This approach also would lessen the amount of work required to re-allocate goodwill in an internal reorganization as operating segments are typically realigned much less frequently than reporting units.
Question 11: What other changes to the impairment test could the Board consider?

If the Board determines to revise the existing goodwill impairment model with a model that requires amortization, we suggest that the Board also consider revising the impairment test to use the undiscounted cash flow approach in ASC 360-10 in order to be consistent with the approach that is used to assess whether an amortizable intangible or other long-lived asset is impaired.

Question 12: Please indicate whether you support the following alternatives by answer “yes” or “no” to the questions in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Do you support the indicated model (Yes/No)?</th>
<th>Do you support requiring an impairment assessment only upon a triggering event? (Yes/No)</th>
<th>Do you support allowing testing at the entity level or a level other than the reporting unit? (Yes/No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment only</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
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Changing the Recognition of Intangible Assets

Question 13: Please describe what, if any, cost savings would be achieved if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets) were subsumed into goodwill and amortized.

Question 14: Please describe what, if any, decision-useful information would be lost if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets, or other items) were subsumed into goodwill and amortized.

Question 15: How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

We believe that there would be some cost savings if certain recognized intangible assets such as customer-related intangibles (CRI) and noncompete agreements (NCAs) were subsumed into goodwill similar to the private company model. Having fewer assets to
amortize and evaluate for impairment would provide some incremental savings while, in our view, would not materially impact the information available to users as in many cases these assets are often difficult to distinguish from goodwill. We note that many of these assets either can not be sold separately (NCA) or at least in our industry is not common for them to be sold separately (Customer related). As a result, the valuation of them, while possible, is very subjective and we would question the reliability of the information. We do observe that it may not materially impact the savings in the purchase price allocation in some cases as many of these assets would still need to be valued for purposes of calculating contributory asset charges, but we do believe the simpler approach is more cost-effective without materially impacting the quality of information provided to users.

Question 16. To gauge the market activity, are you aware of instances in which any recognized intangible assets are sold outside a business acquisition? If so, how often does this occur? Please explain.

In our industry, we believe it is very uncommon for customer-related intangibles to ever be sold outside of a business combination.

Question 17: Of the possible approaches presented, which would you support on a cost-benefit basis?

- **Approach 1**: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill
- **Approach 2**: Apply a Principles-Based Criterion for Intangible Assets
- **Approach 3**: Subsume All Intangible Assets into Goodwill
- **Approach 4**: Do Not Amend the Existing Guidance

We primarily support Approach 1 for the reasons outlined above, but would also support Approach 4 since some of the work to value these assets may still be required for contributory asset charges. We do not support Approach 2 because we do not believe any principle can be developed that is any better than what we have today and would be very subjective and likely introduce more costs into the system. It would seem to contradict the approach of trying to simplify the process. We also do not support Approach 3 as it would result in far too large of a goodwill number and we believe practice is well established for many of the other intangible asset types.

Question 18: As it relates to Approach 2 (a principles-based criterion), please comment on the operability of recognizing intangible assets based, in part, on assessing whether they meet the asset definition.
We do not support Approach 2 as we do not believe it would be operable to recognize intangible assets on whether they meet the asset definition. It would likely be difficult and time consuming for companies to determine whether certain intangibles meet the definition of an asset. Additionally, because of this difficulty and complexity, companies and their auditors would spend significant time and effort discussing whether or not certain intangibles meet the definition of an asset, especially during large acquisitions that may involve many intangible assets.

Question 19: Approaches 1–3 assume that subsuming additional items into goodwill would necessitate the amortization of goodwill. Do you agree or disagree?

We agree that any of the approaches would necessitate amortizing goodwill. One of the reasons we support Approach 1 was based on the premise that if goodwill were being amortized, there is little additional value at that point in separating out NCA and customer-related assets as the lives would likely be similar in many cases and there would be little income statement impact at that point.

Disclosures

Question 20: What is your assessment of the incremental costs and benefits of disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss?

We see very little value and only incremental costs associated with adding such disclosure requirements. Based on today's model, we may have to perform an impairment test simply because of a lack of cushion from a prior year analysis even though there is little risk of impairment. Management would spend additional time putting the disclosure together and auditors would be required to spend additional effort auditing the disclosures that are unlikely to provide significant value to financial statement users. Even under a triggering event model, we fail to understand what benefits this would provide to users if there is no impairment and why the requirements would be different than the current long-lived asset impairment model.

Question 22: What is your assessment of the incremental costs and benefits of disclosing quantitative and qualitative information about the agreements underpinning material intangible items in (a) the period of the acquisition and (b) any changes to those agreements for several years post-acquisition?

We do not believe that disclosing quantitative and qualitative information about the agreements underpinning material intangible items would be operable for preparers and would not provide significant decision-useful information for users. Tracking these items into
the future could potentially provide competitively harmful information that we would not be disclosing otherwise. Additionally, in many cases it is simply not practical as these items get combined or subsumed into existing operations making it impossible to specifically track the acquired operations.

Question 23: Are there other changes (deletions and/or additions) to the current disclosure requirements for goodwill or intangible items that the Board should consider?

If the Board decides to implement a goodwill amortization model, then we would support additional disclosure requirements to explain the amortization period. Specifically, if management uses an amortization period that is different than the default period, then management should be required to disclose why that period was chosen.

Conclusion

Cummins appreciates the Board’s effort to obtain input from stakeholders on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets and consider ways to simplify the process. We are available for questions at your convenience.

Sincerely,

Christopher Clulow
Vice President - Controller