October 1, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation to Comment: Identifiable Intangible Assets and Subsequent Accounting for Goodwill (File Reference No. 2019-720)

Dear Technical Director:

We appreciate the opportunity to respond to the Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill (the ITC).

How to account for goodwill is a question that has long perplexed the accounting profession, so much so that goodwill has been defined by what it is not rather than what it is. Given the challenge of even defining goodwill, we believe there are merits to multiple perspectives about what goodwill represents and how to account for it. Therefore, we support the Board taking a cost-benefit approach to address the accounting for goodwill and we believe there are simplification opportunities either by moving to an amortization with impairment model or by simplifying the impairment-only model. However, we recommend not changing the initial recognition criteria for identifiable intangible assets because we are not aware of significant practice issues, and any changes likely will not provide significant simplification and/or will create non-comparability and diversity in practice.

Our key points on each section of the ITC follow.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

We support an approach to accounting for goodwill that includes both amortization and impairment testing if such an approach improves the cost-benefit equation. However, determining which approaches improve this equation should be informed by feedback from preparers and financial statement users. Also critical to this cost-benefit analysis is selecting an appropriate amortization method. The following are issues we believe the Board should consider when evaluating whether amortizing goodwill improves the cost-benefit equation.

- A model with a long amortization period may not meaningfully reduce the time and effort to perform the impairment test because the amortization may not create enough headroom (i.e. difference between the carrying amount and fair value of a reporting unit).

- A model based on management’s best estimate of an amortization period without a robust framework for determining that period would be inherently subjective and challenging to apply, which would add complexity.

- A model with a default period for amortization may not provide useful information relevant to the transaction.

If an amortization model does not result in sufficient simplification, we believe it may be better to focus on simplifying the impairment test and maintaining an impairment-only model. We recommend simplifying the impairment test by moving up the level of testing from the reporting
unit to the operating segment. This higher level of testing would reduce the number of tests entities must perform and potentially simplify the analysis (e.g. an entity may be able to use the qualitative screen more frequently). We also note that Update 2017-04 is not yet effective for all entities and, therefore, we expect further costs savings when it is fully implemented.

If the Board decides goodwill should be amortized, we believe that an amortization period based on the weighted average life of the identifiable assets acquired may be the most operable approach because it provides an objective measure primarily based on information an entity already needs to calculate. Some also believe this is consistent with how the entity consumes the goodwill of the business in its operations. That is, if all of the acquired identifiable assets have been consumed, the collection of assets and activities giving rise to the goodwill at the acquisition date no longer exist.

We do not support an amortization-only model because we believe that goodwill, like all other assets in GAAP, should be subject to an impairment test. We also do not support optionality for the level of testing because that would lead to non-comparability and diversity in practice.

**Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination**

We recommend making no changes to the guidance for recognizing intangible assets in a business combination. We believe the criteria for recognizing intangible assets are appropriate and have been applied consistently in practice for nearly 20 years. Changing the current principle to a higher-level principle (e.g. using the Concepts Statements definition of an asset) would likely introduce non-comparability and diversity in practice. Additionally, as intangible assets have become a more significant part of the economy it seems counterintuitive to require or allow entities to account for fewer intangible assets. Given these assets are regularly bought and sold outside of business combinations, subsuming these assets into goodwill would make accounting for their subsequent sale more difficult. Finally, subsuming more items into goodwill would create new differences between asset acquisitions and business combinations at a time when the Board is trying to align the accounting for these two types of transactions.

**Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets**

In general, we believe financial statement users and preparers are best positioned to provide feedback about incremental goodwill and intangible asset disclosures. However, we are concerned that the potential proposal to require disclosures about material agreements underlying intangible assets could be impractical given the number of potential agreements acquired by an entity in a business combination. Additionally, these disclosures would provide special treatment for intangible assets acquired in a business combination but ignore agreements related to internally-generated intangible assets, which typically are more prevalent.

**Section 4: Comparability and Scope**

We generally do not support optionality in the accounting for goodwill by Public Business Entities (PBEs) because it would create non-comparability and diversity in practice, which we believe, consistent with the findings of the Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission.
(the Pozen Committee Report)\(^1\), adds complexity to financial reporting. We also believe that in most cases a single set of accounting standards for private companies and PBEs is preferable because it would reduce the overall cost in the financial reporting system (e.g. the cost of going public). We encourage the Board to develop a single model that would apply to all entities. However, we do not believe the PCC alternative regarding amortization of goodwill, in and of itself, is a justification to move PBEs to an amortization model.

Finally, we encourage the Board to collaborate with the IASB in the IASB’s related project, because it is preferable to be converged as much as possible on major accounting practices such as the amortization of goodwill.

The Appendix provides our answers to select questions in the ITC. We have not responded to questions to which we believe financial statement users and/or preparers are best positioned to respond.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Nick Burgmeier at (212) 909-5455 or nburgmeier@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

\(^1\) See page 10, recommendation 1.7 of the Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission, August 1, 2008.
Appendix – Responses to Questions for Respondents

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

This question has long perplexed the accounting profession, so much so that goodwill has best been defined by what it is not rather than what it is. Given the challenge of even defining goodwill, we believe there are merits to multiple perspectives about what goodwill represents and that it likely will not be the same from transaction to transaction or from entity to entity. These different perspectives generally affect how one views the accounting.

Some view the entire business as the asset being acquired in a business combination. Under this view, the purchase price, which includes amounts allocated to goodwill, is the cost of acquiring the business and its future profits. As the business is integrated and used by the acquirer to generate profits, the acquirer is consuming the goodwill and replaces it with internally generated goodwill. Those with this view generally believe that goodwill is a wasting asset that should be amortized (as a cost of the acquired profits) or immediately written off (to avoid double counting the immediate expensing of future internally generated goodwill).

Others view goodwill as the expectation of a continuous cash flow stream associated with the acquired going concern and believe it represents generations of future assets, start-up costs, management skill, and workforce, among other things. Under this view, goodwill does not deteriorate in value unless that expectation changes. Holders of this view generally support the goodwill impairment model or a very long amortization period.

Question 2: Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits.

We believe financial statement users are best positioned to respond to the question about usefulness of the information. See our response to Question 3 for our views on an impairment-only model compared to an amortization model.

Question 3: On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

It depends. If there were a clear view of what goodwill represents, the accounting model should follow that view. However, because there are conceptual merits to multiple views about what goodwill represents, we support the Board taking a cost-benefit approach to address the accounting for goodwill and we believe there are simplification opportunities either by moving to an amortization with impairment model or by simplifying the impairment-only model. Therefore, we support amortization with impairment testing if that model improves the cost-benefit equation.

Whether an amortization model would be an improvement on a cost-benefit basis depends on feedback from both preparers and financial statement users. Also critical to a cost-benefit analysis is selecting an appropriate amortization method. For example:
A model with a long amortization period may not meaningfully reduce the time and effort to perform the impairment test because the amortization may not create significant enough headroom. However, some believe a long amortization period better reflects the economics of goodwill in certain transactions.

A model based on management’s best estimate of an amortization period without a robust framework for determining that period would be subjective and challenging to apply, which would add complexity.

A default period for amortization may not provide information relevant to the transaction, given the challenges of identifying a single life that would apply to all transactions and industries.

If adding an amortization model does not result in sufficient simplification, we believe it may be better to focus on simplifying the impairment test and maintaining an impairment-only model. See question 10 for our suggestion to simplify the impairment test by testing goodwill at the operating segment level.

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 response and explain why you did not select certain characteristics.

a. A default period
b. A cap (or maximum) on the amortization period
c. A floor (or minimum) on the amortization period
d. Justification of an alternative amortization period other than a default period
e. Amortization based on the useful life of the primary identifiable asset acquired
f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
g. Management’s reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

The following is our preferred approach depending on the Board’s conclusions with respect to Question 3:

f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired

This method may be cost effective to preparers and provide financial reporting outcomes that reflect the cost of the acquisition in the financial statements. It provides an objective measure primarily based on information an entity already needs to calculate (i.e. no additional assessment is required). Some also view this method to be consistent with how the entity consumes the goodwill in its operations. That is, if all of the acquired identifiable assets are consumed, the collection of assets and activities giving rise to the goodwill at the acquisition date no longer exists.

The Board would need to make certain decisions to operationalize this method. For example, one consideration is whether, and if so how, indefinite-lived intangible assets and land should be included in the calculation as they do not have quantified lives. Another example is whether the calculation should be based only on the average useful life of long-lived assets or whether current assets such as working capital should be included. The Board would need to consider whether an approach that considered only long-lived assets would be appropriate in certain industries such as financial services because it would exclude significant concentrations of acquired assets such as investment portfolios. However, we think the Board could reasonably work through these issues.
This method could also have the added benefit of more closely aligning the accounting for asset acquisitions and business combinations, which is an objective of the Board in another project. In an asset acquisition, any excess cost above the fair value of the net assets acquired is allocated to long-lived assets (excluding indefinite-lived intangibles) on a relative fair value basis, which is then amortized over the life of those assets. An amortization method that calculates the life of goodwill based on these assets would more closely align the accounting for these two types of transactions.

We might support the following approaches depending on the Board’s findings on the usefulness of the amortization period and overall cost-benefit analysis:

g. Management’s reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments)

This method may provide financial statement users with information about the period of time the acquirer expects the acquisition to pay back the invested capital or the period of time over which the assets are consumed by the acquirer. However, given that goodwill is not identifiable, simply requiring a ‘reasonable’ or ‘best’ estimate could be quite challenging. Therefore, a framework would be needed to effectively implement this method without creating significant additional time and effort for preparers. Additionally, if an entity estimates a long amortization period, then the impairment test would not be significantly simplified for a number of years following the acquisition.

Without a robust framework, we would not support this alternative. Potential factors to consider in a framework are an estimated payback period based on the pricing of the initial transaction, the life of an assembled workforce, the weighted average life of the identifiable assets and the life of the primary asset.

a. A default period

We note that this method could be the most cost effective assuming the amortization period is short enough to reduce the cost of the impairment test. However, this method also likely would provide the least relevant information to financial statement users given the challenges of identifying a single life that would be relevant for all transactions and industries. Therefore, this method may be appropriate only if the Board were to determine that the cost to preparers should be almost zero because there is almost no meaningful information provided to users.

We do not support the following approaches:

b. A cap (or maximum) on the amortization period
c. A floor (or minimum) on the amortization period
d. Justification of an alternative amortization period other than a default period

We believe any method that allows an entity to justify a period other than a default (whether the default is in the form of a floor, cap or a bright line designated in the standard) effectively introduces optionality because some will try to justify a different period while others will not. Similarly, if an entity were required to prove that a default period could be used (i.e. justify that there is no evidence of a better period), we believe that analysis would add unnecessary costs to the financial reporting system. That is because some entities may view the default as a safe harbor and prefer to skip that additional analysis.
If the Board were to choose this method, the costs and benefits likely would depend on the default period selected and the framework for determining when a period other than the default period is appropriate. For example, if the Board were to develop a framework that could be consistently applied to determine if a period other than a default was appropriate, it may be less costly and create less diversity than a high level principle or option.

e. Amortization based on the useful life of the primary identifiable asset acquired.

We believe this method would not be operable in many transactions because a typical acquiree has many assets that are significant to its operations, making the determination of the primary asset too subjective. However, the useful life of the primary identifiable asset acquired may be a factor to consider under approach (g) to make an estimate in situations when the primary asset is clear.

Question 5. Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period? Please indicate yes or no and explain.

Yes. Our views depend on whether the selected amortization with impairment model improves the cost-benefit equation. For example, a model with a default amortization period of 40 years and impairment testing likely would not significantly simplify the impairment test or provide new meaningful information. If an amortization with impairment model does not provide sufficient simplification, it may be better to maintain the impairment only model and focus on simplifying the impairment test as described in Question 10. As we previously indicated, we would not support an amortization model without impairment.

Question 6: Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.

We believe equity investors are best positioned to respond to this question. See Question 4 for a discussion of our view on justifying a period other than the default period.

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?

We have observed significant decreases in time and effort as a result of Update 2017-04. We also note that Update 2017-04 is not yet effective for all entities and, therefore, we expect further cost reductions after it has been fully implemented.

However, even after Update 2017-04 the goodwill impairment test can be challenging. For example, an entity that records a partial goodwill impairment charge under Update 2017-04 may experience some complexity in the years following the impairment. This is because after the impairment charge there is no headroom for the next test, which puts pressure on the judgments and estimates in the subsequent periods and/or result in impairments in consecutive periods. This outcome would be more pronounced in an increasing interest rate environment than it is in a stable or decreasing interest rate environment.

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? Please explain and describe any improvements you would recommend to the qualitative screen.

We have observed that the qualitative screen can reduce time and effort in certain circumstances but in others it is easier to use the quantitative test.

Whether the qualitative screen simplifies the analysis largely depends on entity-specific circumstances such as macroeconomic factors affecting the entity, reporting unit structure, amount of internally generated goodwill, excess of fair value over carrying amount in the previous quantitative goodwill impairment test, and length of time since the last quantitative test. In contrast, when it is not clear that the qualitative screen will be met, it is often more cost-effective to use the quantitative test. In practice, many companies perform a quantitative goodwill impairment test every three to four years as an anchor point for the qualitative analysis.

Financial statement users are best positioned to opine on the effect the amendments have had on the information’s usefulness.

**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? Please explain why in your response.**

Assuming the Board continues with an impairment-only model, we believe that an annual goodwill impairment test is the most operable. As stated in the History section of the ITC, the basis for impairment-only testing is that goodwill is indefinite-lived but not infinite-lived. As such, we believe it should be monitored and reviewed at least annually to determine whether it is impaired. Additionally, an annual test provides consistency and is more likely to catch impairments on a timely basis.

A trigger-only test without amortization may actually increase the level of effort needed. That is because the current triggers of an impairment test in paragraph 350-20-35-3C are the same as the factors considered in the qualitative screening and, as described in Question 8, for many entities the qualitative screen does not reduce time and effort. Because many entities may end up performing an annual quantitative test anyway (or periodically to have an anchor point for the trigger-based analysis), a trigger-based model may add another step each period. Additionally, there would not be a significant difference between a trigger-based model and an annual test model for entities that currently can efficiently apply the qualitative screen.

If the Board decides that goodwill should be amortized, whether a trigger-only impairment model is appropriate depends on a number of factors including the length of the amortization period and the level of testing. For example, a short amortization period and higher level of impairment testing (e.g. the operating segment versus reporting unit) could reduce the relevancy of the annual test. However, based on our preferred amortization approaches described in Question 4, we believe an annual impairment test generally will still be the most appropriate.

**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)? Please explain why in your response.**

We do not support providing an option to test goodwill at different levels because we believe non-comparability and diversity in practice adds costs to the overall financial reporting system as described in the Pozen Committee Report.
We also do not support impairment testing at the entity level for PBEs. Such a test would effectively require reconciling the carrying amount of the entity to market capitalization each reporting period. Additionally, at this level the test would potentially hide many impairment losses due to internally generated goodwill and/or intangibles related to the existing business.

We support impairment testing at the operating segment level with or without amortization. Raising the test to this level would eliminate the need for entities to analyze reporting units at a level below the operating segment level and also reduce the number of tests performed for many entities. We acknowledge that the higher level of testing could result in fewer impairments due to headroom provided by internally generated goodwill and/or intangibles within the operating segment. However, testing at this level would more closely align with information provided by PBEs in the segment disclosures.

Question 11. What other changes to the impairment test could the Board consider? Please be as specific as possible.

See our suggestions in Question 10.

Question 12: The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering “yes” or “no” to the questions in the table below. Please explain your response.

<table>
<thead>
<tr>
<th>Model</th>
<th>Support Impaired Model?</th>
<th>Support Impairment Assessment Only upon a Triggering Event?</th>
<th>Support Allowing Testing at the Entity Level?</th>
<th>Support Allowing Testing at a Level Other Than the Reporting Unit?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment only</td>
<td>Yes, see Question 3.</td>
<td>No, see Question 9.</td>
<td>No, see Question 10.</td>
<td>Yes, but without optionality. See Question 10.</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>It depends. See Question 3.</td>
<td>It depends. See Question 9.</td>
<td>No, see Question 10.</td>
<td>Yes, but without optionality. See Question 10.</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

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. Please be as specific as possible. For example, include specific purchase price allocation or subsequent
accounting cost savings. Please list any additional intangible items the Board should consider subsuming into goodwill.

It is difficult to assess the level of effort without understanding what intangible assets would be subsumed. However, we note that the decrease in time and effort when applying the PCC alternative to subsume customer relationship intangibles and noncompete agreements has been modest at best. For example, in certain instances the value of customer relationships is a required input to properly measure other intangible assets, in which case subsuming customer relationships into goodwill provides little cost savings. Additionally, an entity may be required to value customer relationships and noncompete intangible assets for tax purposes.

Even if there is no need to value the assets subsumed into goodwill, any business combination valuation analysis relies on the interplay of the discount rates used for individual assets and a reconciliation to the Weighted Average Return on Assets (WARA) and the Internal Rate of Return (IRR) of the transaction. A reconciliation of these rates is performed to check the reasonableness of the valuations. When more intangible assets are subsumed into goodwill, a reconciliation of this nature can be less informative and more challenging to explain, which requires incremental effort to check the overall reasonableness of the valuation.

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

Entities rely on Level 3 inputs to estimate the fair value of most intangible assets acquired in a business combination, which inherently requires management judgments and estimates. However, management judgments and estimates are not unique to the valuation of intangible assets because fair value measurements are used throughout GAAP. We do not observe a significant difference in the ability to determine the fair value of customer relationship intangibles and the corresponding reliability of those measurements compared to other intangible assets.

Customer-related intangible assets are frequently valued using a Multi Period Excess Earnings Model (MPEEM), which is well understood and established in practice. When compared to valuation techniques often used for other intangible assets (such as the relief from royalty method), the valuation of a customer relationship using MPEEM may require an entity to gather more inputs, which may require more effort and introduce more subjectivity. However, in certain industries (e.g. subscription-based industries), key inputs used in estimating Customer Relationship Intangibles (CRIs) (e.g. customer attrition, contract renewal history) are relatively easy to quantify compared to other intangible assets (e.g. technology related intangible assets).

Typically, there are no observable inputs related to noncompete agreements, which can introduce more subjectivity related to the valuation of these assets. However, these arrangements less frequently qualify for recognition and, when they do, they typically are not as significant as other intangible assets such as customer relationships and technology intangible assets. Additionally, an entity may be required to determine the fair value of noncompete agreements when they are deemed a separate transaction and excluded from the business combination, because in that instance they would not be eligible to be subsumed into goodwill.

Finally, the reliability of fair value measurements has vastly improved since the introduction of FASB Statement No. 141. Several projects to reduce diversity in accounting and valuation practice have since been completed by organizations such as the AICPA and Appraisal Foundation. A fair value credential (CEIV) has also been established to address concerns raised by regulators and to reduce diversity in practice.
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.

Yes. Intangible assets are regularly sold in transactions that are not business combinations. Examples include sales of developed technology, in-process research and development, trademarks and trade names, and certain customer lists, contracts and relationships. We have seen an increase in these transactions after Update 2017-01, Clarifying the Definition of a Business.

Question 17: Of the possible approaches presented, which would you support on a cost-benefit basis? Please rank the approaches (1 representing your most preferable approach) and explain why you may not have selected certain approaches.

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

See below for our response on each alternative.

Approach 4: Do Not Amend the Existing Guidance

We support this approach. We believe the criteria for recognizing intangible assets are appropriate and have been applied consistently in practice for nearly 20 years. Additionally, as intangible assets have become a more significant part of the economy, it seems counterintuitive to require or allow entities not to separately account for these items.

Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into goodwill

While this approach would align the guidance for private companies and not-for-profit entities with the guidance for PBEs, we do not support optionality for PBEs, consistent with the findings in the Pozen Committee Report. Additionally, as discussed in Question 13, we do not believe the PCC alternative has significantly reduced time and effort for private companies and not-for-profit entities. However, we believe there is an advantage to having a single set of accounting standards for private and public companies and there are benefits to aligning these models (see Section 4). Even if the Board were to choose this alternative, we believe that assets or liabilities arising from contracts with customers should not be subsumed into goodwill with customer relationship intangibles. See our comment letter in response to the FASB’s Invitation to Comment: Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805.

Approach 2: Apply a Principles-Based Criterion for Intangible Assets

We do not support this approach. We believe this approach would effectively replace or amend the current recognition criteria, which we think are appropriate and principles-based. It is unclear exactly what changes would be made to improve the existing guidance and we are concerned that this approach would add subjectivity and lead to non-comparability and diversity in practice.
Approach 3: Subsume All Intangible Assets into Goodwill

We do not support this approach. Intangible assets have become a more significant part of the economy and are often the primary assets acquired in a business combination. Therefore, it seems counterintuitive not to account for these assets.

Given these assets are bought and sold outside of business combinations, not recognizing them separately in a business combination would add complexity when they are subsequently sold. Finally, not recognizing identifiable intangibles would create more differences between asset acquisitions and business combinations at a time when the Board is attempting, in a separate project, to harmonize the accounting for these two types of transactions.

If more intangible assets are subsumed into goodwill, the Board should provide a model to determine the amount of goodwill allocated to the subsequent sale of those intangibles to properly calculate the gain or loss.

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 believe the criteria for recognizing an intangible asset are currently appropriate and consistent with the definition of an asset as stated in paragraph B155 of Statement 141. If the only guidance available were the Concepts Statements, we believe this would add cost and complexity because, without a more detailed framework, the guidance would be difficult to apply and likely to result in non-comparability and diversity in practice.

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

Yes. The identifiable intangible assets that would be subsumed into goodwill generally would be amortizable. Therefore, when these assets are subsumed it weakens the argument that goodwill is not a wasting asset and not amortizing it would contradict the economic characteristics of the intangible assets being subsumed.

Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets

Question 21: What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

If the Board decides to adopt an amortization model for goodwill, it might consider a goodwill disclosure that includes a table with the gross amount of goodwill, accumulated amortization and/or impairments disaggregated into meaningful categories. We believe there are multiple categories that would provide useful information. Examples of categories to consider include each major acquisition or vintage within each reportable segment. We believe such a table may provide information so that financial statement users could evaluate how the amortization of those balances affect the results of operations.

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? Please explain.
Without a better understanding of the potential additional disclosures, we are concerned that disclosures beyond those already required would be impractical given the number of potential agreements that might be acquired by an entity in a business combination.

**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? Please be as specific as possible and explain why.

None, other than the one discussed in response to Question 21.

**Section 4: Comparability and Scope**

**Question 24:** Under current GAAP, to what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

We believe it is preferable to have a single set of GAAP for both private and public companies if possible, because the substance of the transactions by both types of companies is the same. Additionally, many private companies choose not to use the PCC alternatives when there is a potential to become a PBE because of the cost and effort to recast the information. Finally, a single model would be less costly and complex to the financial reporting system as a whole.

We note that the Board has an opportunity to more closely align the goodwill model for private and public companies in this project and encourage it to pursue a single model that applies to all entities. However, we do not believe the PCC alternative regarding amortization of goodwill, in and of itself, is a justification to move PBEs to an amortization model.

**Question 25:** Please describe the implications on costs and benefits of providing PBEs with an option on how to account for goodwill and intangible assets and the option for the method and frequency of impairment testing (described previously in Sections 1 and 2).

As discussed in Sections 1 and 2, we do not support optionality for PBEs. This would create non-comparability and diversity, which we believe would add cost and complexity to the financial reporting system as a whole, particularly for financial statement users.

**Question 27:** Please indicate the sources of comparability that are most important to you regarding goodwill and intangible assets. Please select all that apply and explain why comparability is not important to you in certain cases.

- a. Comparability among all entities reporting under GAAP (one requirement for PBEs, private business entities, and not-for-profit entities)
- b. Comparability among all PBEs reporting under GAAP
- c. Comparability among all private business entities and all not-for-profit entities reporting under GAAP
- d. Comparability among all PBEs reporting under GAAP and PBEs reporting under IFRS.

We believe comparability among PBEs (item (b) above) is important, and we generally do not support optionality as discussed in our responses to Questions 10 and 25.
While we generally prefer a single set of GAAP for both private and public companies, when possible, we understand there may be scenarios in which the needs of their respective financial statement users may be different. Nevertheless, aligning the models for private companies and PBEs would allow a more seamless transition between being a private and public company. We do not believe the PCC alternative regarding amortization of goodwill, in and of itself, is a justification to move PBEs to an amortization model.

We encourage the Board to collaborate with the IASB in the IASB’s related project because it is preferable to be converged as much as possible on major accounting practices such as the amortization of goodwill. Convergence is particularly important because when peer companies report under different frameworks, financial statement users often need to adjust the reported data to make relevant comparisons. We also note that comparability between GAAP and IFRS reduces the cost for multinational companies because they do not need to keep two sets of books to comply with statutory reporting requirements.

We believe financial statements users for not-for-profit and private business entities are best positioned to answer item (c).

**Question 28: Do you have any comments related to the Other Topics for Consideration Section or other general comments?**

No. However, we encourage the Board to consider the effect of any decisions made in this project on the Improving the Accounting for Asset Acquisitions and Business Combinations project. For example, subsuming intangible assets into goodwill could create more differences between asset acquisitions and business combinations.

**Question 29: Would you be interested and able to participate in the roundtable?**

Yes. We would be interested and able to participate in the roundtable.