October 3, 2019

Via email

Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2019-720: Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Dear Mr. Golden:

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over $1.9 trillion in assets providing banking, investments, mortgage, and commercial and consumer finance services. We appreciate the opportunity to comment on the FASB’s Invitation to Comment: Identifiable Intangible Assets and Subsequent Accounting for Goodwill.

We commend the Board for its recent improvements to the impairment testing process as well as its efforts to reduce the cost and complexity associated with the current model. However, we question the need for the Board to yet again revise the accounting for goodwill. In the financial services industry, goodwill is less relevant and typically disregarded by financial statement users as it is excluded from regulatory capital. Accordingly, the goodwill impairment process is largely a financial statement reporting exercise. Moreover, goodwill can be created organically, but is only recognized in a business combination. Thus, goodwill impairments and any newly introduced amortization expense which periodically reduces goodwill will typically be adjusted by users to better evaluate core earnings performance of the reporting entity. For these reasons, we continue to support the existing accounting guidance or the ability to directly write-off goodwill through Other Comprehensive Income.
We do not support the amortization of goodwill. While this may be operationally easier for preparers, we strongly believe that goodwill amortization will lead to more non-GAAP reporting. The reintroduction of goodwill amortization will create the need for users to continually adjust net income for goodwill amortization, just as they do today for impairment charges. Goodwill amortization over an arbitrary period would perpetuate and expand the use of non-GAAP measures by both preparers and users. Since net income is a key performance metric for virtually all companies, it should not be impacted by yet another accounting change involving goodwill.

The proposed changes also do not sufficiently reduce the cost and time burden associated with the annual goodwill impairment test. Financial statement preparers spend significant amounts of time supporting the qualitative considerations and when applicable, calculating estimates of fair value for reporting units. We continue to incur costs associated with developing cash flow forecasts and determining discount rates. We acknowledge that the qualitative test has reduced the burden of performing the quantitative test each year, but we have found that the qualitative test still requires significant time and documentation to satisfy our auditors.

The immediate write-off of goodwill would eliminate the likely increase in the use of non-GAAP measures while also eliminating the costs and burden associated with annual impairment testing. Such an approach would easily satisfy the Board’s stated objective of simplification. However, should the Board decide that amortization of goodwill through earnings is appropriate, we recommend a modified retrospective transition approach. Since goodwill represents an aged asset that arose from a single or series of business combinations that occurred in prior years, we believe that goodwill amortization for prior periods should be treated as a cumulative catch up adjustment to beginning equity in the period that the new standard is implemented.

We support not amending the existing guidance on the recognition of intangible assets in a business combination. We have not experienced any difficulties in identifying and valuing these intangible assets and we do not believe it would be appropriate to subsume intangible assets into goodwill as we believe that they provide separate benefits from goodwill.

We do not believe that additional disclosures for either goodwill or intangible assets are required. In fact, we note that if the Board decided to allow for the immediate write-off of goodwill to Other Comprehensive Income, existing goodwill disclosures could be eliminated in their entirety.

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We appreciate the opportunity to comment on the Invitation to Comment and are willing to work with the FASB as you proceed with further deliberations on the topic. If you have any questions, please contact me at 980-260-6434 or Mario Mastrantoni at 980-260-6399.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
Executive Vice President & Controller