October 4, 2019

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


Dear Technical Director:

Citigroup appreciates the opportunity to comment on the Invitation to Comment (“ITC”) *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, dated July 9, 2019.

We commend the Board’s efforts to reduce costs and complexity in accounting standards, while maintaining and improving the usefulness of the information provided to financial statement users. The Board recently achieved these objectives with several accounting standards updates (“ASUs”) pertaining to goodwill and business combinations.\(^1\) While we acknowledge the proposed modifications in the ITC have certain merits and benefits, we feel that the current accounting model should be maintained, as the proposals may not achieve the same cost-benefit as the previously mentioned ASUs.

To illustrate our views, the appendix to this letter includes responses to select questions in the ITC for the Board to consider.

We would be pleased to discuss our comments with you at your convenience. Please feel free to call me at (347) 648-7721.

Sincerely,

Robert Traficanti
Citigroup, Inc.
Global Head of Accounting Policy

Appendix

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.

On a cost-benefit basis, we support the current impairment-only model over an amortization (and impairment) model.

In order for an amortization (and impairment) model to achieve a cost reduction, it is our view that the amortization period would have to be prescriptive and short-lived. Assuming no other changes to the accounting model, a long amortization period would not cause a significant reduction in costs as companies would likely still need to (i) test goodwill for impairment annually and (ii) monitor for trigger events continually.

While a prescriptive and short amortization period may reduce certain costs, it may often result in financial information that is neither useful, nor relevant, to a reporting entity’s financial performance. As a result, to properly model a reporting entity’s performance, financial statement preparers and analysts will likely reference incremental and recurring non-GAAP measures, such as net income or earnings per share, both adjusted for the amortization of goodwill. Further, as a short amortization period may cause impairment to become implausible or improbable, financial statement users may have more difficulty evaluating management performance and holding them accountable for business acquisitions. Lastly, while certain costs may be reduced, an amortization (and impairment) model will likely introduce new costs, such as creating processes to re-assess the appropriateness of the amortization period on an ongoing basis, particularly if an impairment occurs.

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).

If the Board were to decide to amortize goodwill, we believe management’s reasonable estimate would be the most appropriate amortization period. As the drivers of goodwill can vary greatly by transaction and industry, management’s reasonable estimate will be the most appropriate accounting model, as goodwill can represent different future economic benefits which can be realized over different periods.
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.

We support the removal of the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually, as this could provide further cost reduction for preparers. Under the current impairment-only model, companies are already required to monitor for events which indicate that goodwill may be impaired. When such an event occurs, companies perform a qualitative or quantitative assessment, to determine if goodwill is actually impaired. As continual monitoring is sufficient to identify and record impairment, if and when it occurs, the annual impairment test is an extraneous requirement whose removal can help companies achieve a significant cost reduction.

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 oppose providing an option to test goodwill at a level higher than a reporting unit, such as an operating segment or reporting entity. If the Board was to introduce such an option, the Board may want to consider whether (i) a reporting entity must meet certain conditions to apply this option and (ii) if the option is (a) irrevocable, (b) unconditionally revocable, or (c) conditionally revocable, such as upon a business restructuring. For example, if a reporting entity can qualitatively state that it is more-likely-than-not the same impairment conclusion would be reached if tested at the reporting entity and reporting unit (or operating segment) levels, then this option may be appropriate and may be a significant cost reduction. However, if a reporting entity cannot demonstrate that the same impairment conclusion would be reached, this option may not provide an appropriate accounting model when not all reporting units are performing uniformly.

On the other hand, we believe that a requirement to test goodwill for impairment at a level more granular than a reporting unit would create unnecessary cost, and may not be practical, particularly for any goodwill balances existing upon transition.

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

Regarding the accounting for intangible assets, we support “Approach 4: Do Not Amend the Existing Guidance.” Intangible assets and goodwill are inherently different and therefore the associated accounting should differ. Intangible assets generally represent identifiable legal rights that the acquirer is purchasing (e.g., intellectual property, noncompete agreements, etc.). As these legal rights generally have a finite life, or in the case of other intangible assets that may not be legal rights, but whose economic lives can be
reasonably estimated (such as customer-related intangibles), an amortization and impairment model is appropriate.