October 4, 2019

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


Fortis Inc. ("Fortis" or the "Corporation") appreciates the opportunity to respond to the Financial Accounting Standards Board’s Invitation to Comment - Identifiable Intangible Assets and Subsequent Accounting for Goodwill, File Reference No. 2019-720.

Fortis is a leader in the North American regulated electric and gas utility industry, with 2018 revenue of CAD$8.4 billion and total assets of approximately CAD$52 billion as at June 30, 2019. The Corporation’s 8,800 employees serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries. Fortis shares are listed on the Toronto and New York Stock Exchanges under the symbol FTS.

Fortis has experienced significant growth through acquisitions. As at June 30, 2019, the Corporation’s balance sheet included approximately CAD$12 billion in goodwill, with over 80% attributable to acquisitions within the last five years.

While Fortis supports the Board’s objective for simplification and improvements, Fortis does not support goodwill amortization. Attached are Fortis’ responses to the questions in the Invitation to Comment.

Thank-you for your consideration of our comments. If you have any questions, please contact me directly at 709-737-5894.

Sincerely,

/s/ Jamie Roberts

Jamie Roberts
Vice-President, Controller

Encl.
Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

Goodwill primarily represents going concern aspects that reflect existing assembled assets and a work force that cannot be duplicated at the same cost by a new entrant, significant barriers to entry, future growth prospects related to substantial capital expenditure programs, and franchise rights and other intangibles not separably identifiable because they are inextricably linked to the provision of regulated utility service.

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.

Yes, Fortis Inc. ("Fortis" or the "Corporation") believes the benefits of the current goodwill model outweigh the costs.

Our current impairment testing model has administrative costs associated with an annual quantitative assessment along with related external consultant and audit fees. However, the administrative costs are tempered by the fact that the annual assessment primarily draws inputs from each reporting unit’s five-year business plan. These inputs are embedded in the Corporation’s accounting processes and do not represent incremental costs. Additionally, some level of impairment testing, likely with commensurate external consultant fees and certainly with commensurate audit fees, will still be required regardless of whether the goodwill amortization model is adopted, or the goodwill impairment testing model is continued.

Fortis believes that the existing model is rooted in sound financial and valuation principles. Furthermore, any amortization period would be arbitrary, particularly in the utility industry where assets are effectively operated in perpetuity. In a regulated environment, the fair value of goodwill typically increases over time in step with rate base growth. The effect of amortization would be to further increase the spread between fair value and carrying value.

Fortis believes that moving to an amortization model could have a far greater cost than the current impairment testing model. In the past, Fortis had grown substantially through acquisitions, which resulted in a significant goodwill asset. Amortization of goodwill would have a material negative impact on earnings with no underlying economic justification. It would result in earnings being less relevant in measuring and assessing the underlying economics of acquisitions thereby adding complexity. The negative earnings impact may also discourage future acquisition activities by the Corporation, and possibly others in the industry, when such acquisition activities could otherwise benefit customers, shareholders and the industry as a whole.

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1 Rate base is the stated value of the net assets on which a regulated utility is permitted to earn a specified return in accordance with its regulatory construct. It is comprised primarily of plant, property and equipment and grows as the utility invests in the infrastructure required to serve its customers. Most of Fortis' goodwill has arisen on the acquisition of other utilities. Mathematically, goodwill effectively represents the excess of the purchase price over the acquired rate base and reflects the fact that the purchase price in a utility acquisition is generally determined as a multiple of the acquired rate base. It therefore follows that the fair value of goodwill would be expected to grow as rate base grows.
Additional administrative and legal costs would also be incurred to address potential impacts the amortization of goodwill may have on company debt covenants. Material amortization of goodwill could trigger debt covenant defaults if not addressed.

Fortis does not believe goodwill amortization would assist users of its financial statements. It is likely users would simply adjust earnings results to exclude amortization, merely resulting in more complexity. Also, goodwill is excluded from rate base of the Corporation’s regulated utilities. Amortization would cause additional regulatory complexity as regulators would exclude it from the customer rate-setting process.

**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.

Fortis opposes goodwill amortization with impairment testing. This would be the most burdensome approach as it would retain most or all the costs of the existing impairment model and add the drawbacks of the amortization model as noted above.

**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).

Fortis does not support amortization of goodwill for the reasons noted in the response to Questions 1 and 2, with emphasis on goodwill being inextricably linked to the provision of regulated utility service using a system of assets expected to operate into perpetuity. Goodwill, therefore, does not have a finite life.

Amortization period options in (a), (b) and (c) are completely arbitrary in nature. Amortization period options in (d) and (g) would result in the use of significant management judgement, may lend itself to management bias and be difficult to audit. Under option (e), it would be particularly difficult to select the “useful life of the primary identifiable asset” in a business acquisition. Utilities are capital intensive businesses without a “primary identifiable asset”, but with several asset classes resulting in a range of useful lives. Option (f) recognizes the range of useful lives of utility capital assets and has some linkage between goodwill and the identifiable assets acquired.

**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.

No. Fortis simply believes that the current model provides financial statement users with better information.

**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.

Fortis does not support amortization of goodwill and does not believe amortization would provide equity investors with decision-useful information, as indicated in the response to Question 2.

The amortization period noted in (f) above in Question 4, however, provides more decision-useful information to the reader than a default period because the amortization period would be linked to the economic benefit of the assets acquired. As such, the cost of determining the amortization period in option (f) would be justified.

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 usefulness of financial reporting information for users? Please explain.

Fortis has no basis to comment as it has not had an impairment.

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.

Fortis has not seen a cost reduction as a result of the amendments in Update 2011-08.

Fortis does not believe the amendments reduce the usefulness of financial reporting information to users.

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.

Fortis supports removing the annual impairment assessment and moving to a "triggering event" along with the following considerations: (1) performing an annual impairment assessment in the first three years post an acquisition as the risk of impairment is typically higher in such early years; and (2) requiring a minimum impairment assessment on a less frequent basis thereafter (i.e., every three years) to assist in bridging the models. This approach would reduce the administrative burden associated with annual impairment testing.

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.

Fortis opposes this model as impairment at one or more reporting units could be masked by other units.

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

See response to Question 9.
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></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>Yes</td>
<td>Yes, see comments above</td>
<td>No</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</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

Questions 13 through 19:

Fortis has no comment regarding modification to the recognition of intangible assets in a business combination. In prior utility acquisitions, fair market value adjustments to the assets and liabilities recognized have been minimal as all the economic benefits and obligations associated with regulated assets and liabilities beyond regulated rates of return accrue to the utility's customers. Fortis does not have any material intangible assets that were recognized as a result of business combinations.

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

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?

Fortis believes that the financial statement disclosure requirements are adequate based on the current US GAAP guidance and does not support additional quantitative disclosure.

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

Based on the current guidance, Fortis has no additional suggestions.

Questions 22 and 23:

Fortis has no comment, refer to Section 2.
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 public business entities ("PBEs") and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

Noncomparability between PBEs and private business entities and not-for-profit entities is not a concern for Fortis as our primary financial statement users compare the Corporation’s financial statements to those of other investor-owned utilities (i.e. PBEs) in the United States and Canada.

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).

Fortis believes that allowing an option on how to account for goodwill would provide companies with the opportunity to elect the best method based on their own specific facts and circumstances and, thereby, provide the best information to the users of their financial statements. While this choice could result in less comparability between PBEs, Fortis believes noncomparability can be overcome with adequate disclosures.

With respect to the method and frequency of impairment testing, as noted in the response to Question 9, Fortis believes providing options will allow companies to reduce some of the administrative burden while still ensuring that impairments are recognized.

Question 26: To what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.

As noted in the response to Question 25, Fortis believes noncomparability can be overcome with adequate disclosures. In addition, as noted in the response to Question 24, users of the Corporation’s financial statements generally compare Fortis to other investor-owned utilities in the United States and Canada, the vast majority of which report under US GAAP; therefore, comparability with PBE’s reporting under IFRS is not a major concern.

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.

Fortis views (b) as being the most relevant and important as the vast majority of its peer group report under US GAAP and to a lessor extent (d), as a few Canadian investor-owned utilities in its peer group report under IFRS. As previously noted, Fortis believes the issue of noncomparability can be overcome with adequate disclosures.
Other Topics for Consideration

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

Fortis does not have any additional comments for consideration.

Next Steps

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

Fortis is interested and would appreciate the opportunity to participate in the roundtable.