October 4, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-720

Dear Mr. Kuhaneck:

RSM US LLP appreciates the opportunity to comment on the Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (the ITC). Overall, we support the FASB’s efforts to evaluate whether further changes should be made to the accounting for certain intangible assets acquired in a business combination and subsequent accounting for goodwill. Provided below for your consideration are our responses to the “Questions for Respondents” on which specific comment was requested.

**Responses to Questions for Respondents**

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

The core element of goodwill is primarily the fair value of the “going concern” element of the acquired entity. In our experience, it also represents several other things, including expected economies of scale, expected synergies from combining operations, the acquirer’s expectation of its management team being able to run the acquired business more efficiently than the seller, customer relationships that don’t meet the contractual-legal or separability criterion (primarily in healthcare) and an assembled workforce.

**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 the Board made good progress from a cost-benefit standpoint by eliminating Step 2 from the goodwill impairment test with the issuance of Accounting Standards Update (ASU) 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, as performing Step 2 was often the most difficult and time-consuming area of goodwill impairment testing. That said, given that goodwill impairment charges often are ignored or adjusted on a pro forma basis in investors’ analysis of a company’s performance, we don’t think the cost of requiring an impairment test for all reporting units on an annual basis is justified by the benefits. Our conclusion is based upon several of the issues that were raised in the ITC. Because an impairment is a lagging indicator and usually does not provide users with useful predictive information, it arguably is of little use beyond the first few years after an acquisition. As pointed out in the ITC, an impairment may represent a cumulative adjustment for amortization not previously recognized or a temporary market value decline. As discussed in our response to question 3, we believe an amortization model with impairment-testing triggers would be a more cost effective alternative to annual impairment testing.
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, given that goodwill impairment charges often are ignored or adjusted on a pro forma basis in an investor's analysis of a company's performance as noted in our response to the prior question, we would support goodwill amortization with impairment testing when triggered for certain circumstances. This would reduce costs incurred by companies annually for goodwill impairment testing but continue to provide information to investors on acquisitions that were performing significantly below expectations by requiring an impairment test in certain circumstances.

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).

We believe a maximum default period should be used for the amortization period with the option to amortize goodwill over a shorter period if justified; this approach would be similar to the Private Company Council (PCC) alternative for goodwill impairment testing. If a maximum default period were to be used, we believe that there could be some reduction in cost/complexity if a 15-year period was selected to align with the current tax amortization period. However, we acknowledge that the selection of any maximum period would be somewhat arbitrary, and we therefore also would support a maximum period of 10 years to further align with the current PCC alternative.

While we believe it would be appropriate to allow entities to justify a shorter period in limited scenarios (e.g., single-product IPR&D company with no pipeline), our experience with the PCC alternative and the prior requirement to amortize goodwill over a period not to exceed 40 years indicates that most entities will default to the maximum period.

Concerning one of the other alternatives, we do not believe amortization based on the useful life of the primary identifiable asset acquired is appropriate. As noted in our response in August 2013 to the Proposed ASU, Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill, a proposal of the Private Company Council, we believe use of this amortization period would add complexity to the model, and it is unclear why the period of goodwill amortization should necessarily be linked to the life of the primary asset. The concept of a primary asset is utilized in existing guidance for the testing of impairment of long-lived assets that are held-and-used in which the estimated undiscounted cash flows utilized in the impairment test are based on the remaining useful life of the primary asset of an asset group and compared to the carrying value of the asset group. The purpose of using the primary asset in this situation is to determine the cash flow period for which an asset group is expected to provide service potential to an entity. We do not believe this concept is necessarily relevant in estimating the period of goodwill amortization. Further, even if it was directly relevant, we do not
believe it would improve the subsequent measurement of goodwill, and we believe it increases cost and complexity because the determination of the primary asset is not always straightforward.

**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.

Our views on amortization versus impairment are not impacted by the amortization method or period. From a cost-benefit perspective, we believe amortization of goodwill is an appropriate path forward. However, if events or circumstances post-acquisition would indicate that the remaining balance of goodwill would not be recovered, we believe an impairment charge would still be appropriate. We therefore would support a model similar to the PCC alternative, which would require an impairment test if certain impairment triggers are present.

**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 an entity only should be allowed to select an amortization period shorter than the default period if justified. We expect these situations to be rare because there would be costs incurred in justifying a shorter amortization period and this approach would increase implementation complexity and audit difficulties. Further, given that several users add back noncash charges, it would not be cost beneficial in most situations to do so. That said, in situations in which a shorter amortization period is utilized, we believe disclosures should be provided to give an investor insight as to which special circumstances are present that justify a shorter amortization period. Further, this approach would (a) better match the cost with the expected benefits and (b) prevent an impairment charge in a subsequent period, which, as previously discussed, is a lagging indicator of little predictive value.

**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 2011-08 reduce the usefulness of financial reporting information for users? Please explain.

The amendments in ASU 2017-04 to eliminate Step 2 of the goodwill impairment test certainly reduced the cost to perform goodwill impairment tests in which Step 1 indicated an impairment. This is because, in those scenarios, companies no longer are required to incur the costs of valuing all assets in a reporting unit for Step 2, which often involved the use of outside valuation specialists. Further, given the subjectivity in determining the fair value of the assets and liabilities in Step 2 and the lack of required disclosures regarding how the impairment was actually measured, we do not believe the amendments in ASU 2017-04 reduced the usefulness of financial reporting information for users.

**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.

In situations where there is a significant amount of headroom (the fair value of the reporting unit is significantly in excess of the carrying value), the ASU 2011-08 qualitative screen did reduce the cost of performing the impairment test. The qualitative screen is also helpful in situations where there has not been a lot of volatility in the market, the company’s performance has been meeting or exceeding the projections utilized in the previous quantitative test, and it has only been a year or two since the last quantitative test was performed. However, if those conditions are not present, it is usually less costly for a company to determine the fair value of a reporting unit quantitatively for goodwill.
impairment testing purposes rather than using the qualitative screen. We do not believe that the use of the qualitative screen has any impact on the usefulness of the information for users. If appropriately applied, there would not be an impairment recognized whether a qualitative or quantitative test was performed and therefore little relevant information is omitted.

**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.

Consistent with our response in June 2016 to the Proposed ASU, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*, we think the requirement to test goodwill for impairment on an annual basis should be removed and instead impairment testing should only be required upon the occurrence of a triggering event. However, we believe this approach only would be appropriate if goodwill is required to be amortized over a period not to exceed 15 years. Because of the annual reduction in the carrying value, amortization would reduce the likelihood of a delayed impairment. This would align the goodwill impairment test with all other long-lived asset impairment tests, other than the indefinite-lived intangible asset impairment test.

**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.

Most of the complexity and issues we encounter with testing at the reporting unit level is with entities that are not required to report segment information. These entities have incremental costs and complexities related to the reporting unit determination and valuation because (a) the determination of operating segments is the starting point to determine reporting units, and (b) they are not otherwise required to have controls or processes for the determination of reportable or operating segments. Also, as demonstrated by the support for the PCC alternative, the needs of the financial statement users and their access to management are different for public business entities (PBEs) versus other entities. We therefore would be supportive of providing an option to test goodwill at the entity level for entities that are not PBEs, even in situations in which the entity did not elect the current PCC alternative.

In the case of PBEs, if goodwill was being amortized, we would be supportive of having the test at the reportable segment level vs. a reporting unit level. This would align with the level of detail deemed important for investors when establishing the segment reporting requirements, as well as prevent the increase in headroom (fair value in excess of book value) in one segment from masking impairment in another segment. We believe the risk of one reporting unit within a segment masking an impairment in another reporting unit in the same segment would be somewhat mitigated by the requirement to amortize the goodwill.

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

We believe the Board has appropriately considered the viable alternatives and do not have other suggestions for changes that should be considered.
**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?</th>
<th>Do You Support Requiring an Impairment Assessment Only upon a Triggering Event?</th>
<th>Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment only</td>
<td>No</td>
<td>No</td>
<td>No</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>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

**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.

We believe there would be a reduction in costs if certain intangible assets no longer were required to be recognized. In many cases, companies will still be required to utilize third-party valuation specialists and incur the related costs in order to determine the fair value of identified intangible assets arising from other legal rights that will continue to be recognized separately. However, we still would expect costs overall to be reduced because less work will be required of the third-party valuation specialist, given that they will be valuing fewer intangible assets. Further, given the subjective nature of valuing these assets, there also would be a potential cost reduction due to having to spend less time working with auditors to resolve related questions on the assumptions used in the valuation of these intangible assets. In addition, if these intangible assets no longer were separately recognized, there would be additional potential cost savings from not needing to perform subsequent impairment tests on those specific intangible assets.

**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. Please be as specific as possible. For example, include specific analyses you perform that no longer would be possible.

Assuming that goodwill would be subject to amortization with an impairment model, we don’t believe any decision-useful information would be lost if intangibles that are incapable of generating cash flows independent from a business were subsumed into goodwill. We believe financial statement users would be able to obtain decision-useful information from transparent disclosure at the time of the acquisition. The measurement of such intangibles is subjective and really only relevant (i.e., represents fair value) at the date of acquisition or at a subsequent impairment date. The related amortization is a noncash charge, which we understand typically is adjusted for, and the amortized cost has no real relationship to the current fair value.
**Question 15:** How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

The measurement of noncompete agreements is inherently subjective given the challenge associated with defining the business assumptions for the with-competition scenario. While the methodology for noncompete agreements is fundamentally sound, it is often difficult for companies of all sizes to estimate the likelihood of competition and isolate the competitive impact from an individual. It is even more difficult to audit the related underlying assumptions.

However, for customer-related intangible assets, because of the AICPA’s and The Appraisal Foundation’s efforts with working groups, specifically those focused on contributory asset charges (published in 2010) and customer relationships (published in 2016), we see significantly less diversity in practice in measurement. Further, the *Application of the Mandatory Performance Framework* (published in 2017) provided additional clarity on the development and documentation of key assumptions, such as the prospective financial information (PFI) upon which the valuation is highly dependent as well as the attrition assumptions. The various best-practices documents also have (a) improved the quality of such measurements by providing a process for identifying and selecting the best valuation methodology (such as multi-period excess earnings, distributor, replacement cost) based on facts and circumstances and (b) provided clarity on how to develop key assumptions (such as existing customer growth and attrition). It is anticipated that the AICPA’s working group preparing an audit and valuation guide for business combinations will further clarify and improve the process.

While the measurement of customer-related intangible assets continues to rely on several assumptions, many of the assumptions are correlated to the assumptions in the PFI and historical results.

**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.

It is extremely rare for identified intangibles to be sold separately from other assets that would not also constitute a business acquisition. Our experience has been that, in most instances, the material intangibles that have been recognized are either incapable of generating cash flows independent from the business or are so critical to the business that separation would not be economically beneficial. However, there have been a few instances where mortgage-servicing rights have been sold with a portfolio of loans in an asset sale that were not considered a business acquisition.

**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.

In our view, Approach 1 would be most preferable because it reduces certain costs while still recording separately those intangible assets that generate separate cash flows. Many private companies are applying this approach already, so transition for public companies should not be difficult. We would not support Approach 2 because we believe it could significantly increase
complexity and thereby detract from the Board’s intention in recent years to simplify accounting guidance to the extent possible. We could see merit in Approaches 3 and 4, but those would not be our preference.

**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.

As noted in response to question 17, we believe this approach could significantly increase complexity and may be difficult for companies to operationalize. Due to the amount of judgment involved in the execution of this approach, it also would affect the comparability of financial statements among otherwise similar entities and situations.

**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.

We agree that subsuming additional intangible assets into goodwill would necessitate amortization. Otherwise, the result would effectively be to transform finite-lived intangible assets into indefinite-lived 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?

We believe the incremental costs of this type of disclosure would not be significant and could provide some benefits to users of financial statements. However, we would limit this disclosure to those situations in which the fair value of a reporting unit with material goodwill is not significantly in excess of its carrying value.

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

We have concerns that requiring additional quantitative information would not be cost beneficial due to the fact that the assumptions are highly subjective and could create potential legal concerns as discussed in the ITC. We believe the appropriate place to provide forward-looking information is within Management’s Discussion and Analysis of Financial Position and Results of Operations (MD&A). Also, current performance and outlook would be more relevant and decision useful than comparisons to historical projections. Due to these limitations, we do not have any other suggested alternatives for the Board to consider.

**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 postacquisition? Please explain.

We believe the incremental costs of disclosing additional quantitative information about agreements underpinning material intangible items and updating those disclosures in subsequent periods could potentially be cost prohibitive. However, we would not be opposed to requiring certain qualitative disclosures regarding these material intangible items in the year of the business combination. If investors believe this information is necessary, such information also would be relevant for unrecognized intangibles (internally developed), and the more appropriate place for such disclosures would be within MD&A or other parts of the public document.
**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.

We have no specific other changes of disclosures to recommend for consideration other than those already included in the ITC.

**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 do not think the lack of comparability between PBEs and other entities in accounting for goodwill and certain recognized intangible assets significantly reduces the usefulness of financial reporting information. As it relates to noncomparability specifically for intangible assets, we believe the bigger issue regarding the usefulness of financial information lies in the lack of comparability between two otherwise identical companies if one expanded organically and the other expanded through acquisitions. Ultimately, we believe the Board should perform further research regarding this specific issue as it is much more pervasive from a noncomparability standpoint.

**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).

We believe there would be a significant reduction in costs incurred by preparers that elected an option to subsume certain intangible assets into goodwill in a business combination and to subsequently amortize goodwill and only test for impairment if certain triggering events occurred. (The cost savings would result from reduction in time spent by preparers in developing the estimates, reduced fees for valuation services as well as reduced time in working with auditors on questions related to assumptions used in valuing these intangible assets and determining the fair value of reporting units in goodwill impairment testing.) We think this is a reasonable approach, given that goodwill impairment charges are often ignored or adjusted on a pro forma basis in an investor's analysis of a company's performance and investors often do not focus on the specific fair value recorded for certain intangible assets in a business combination.

**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.

While we acknowledge that changes would create additional differences and therefore affect comparability, we believe the more relevant considerations should be the cost-benefit analysis and the decision usefulness of the information provided. Investors would have to make comparability adjustments; however, even if there is consistency between the standards, investors will make certain adjustments, such as those for internally developed or organically grown businesses, because the only items currently being considered in the ITC are the result of items acquired in acquisitions.

**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.

As indicated in our response to question 26, we do not believe comparability is the most relevant criteria for the evaluation of the proposed simplification. The only time all information is truly comparable is in situations where companies are primarily built by recent acquisitions vs. grown organically. From a simplification perspective, we believe there would be benefit from one simplified recognition and measurement criteria with expanded disclosure for PBEs consistent with the differing needs of their users.

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

Not at this time.

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

Yes.

We appreciate this opportunity to provide feedback on the proposed Update. We would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day (563.888.4017) or Brian H. Marshall (203.905.5014).

Sincerely,

RSM US LLP