October 7, 2019

Technical Director
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Financial Accounting Standards Board
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Technical Director:

Exelon Corporation (Exelon) appreciates the opportunity to provide feedback on the Financial Accounting Standards Board’s (the Board) Invitation to Comment on Identifiable Intangible Assets and Subsequent Accounting for Goodwill. Exelon supports the Board’s initiative to reduce cost and complexity in accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements.

Exelon is a Fortune 100 energy company with the largest number of utility customers in the U.S. Exelon conducts business in 48 states, the District of Columbia and Canada and had 2018 revenue of $35.9 billion. Exelon’s six utilities deliver electricity and natural gas to approximately 10 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey and Pennsylvania through its Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO and Pepco subsidiaries. Exelon is one of the largest competitive U.S. power generators, with more than 32,000 megawatts of nuclear, gas, wind, solar and hydroelectric generating capacity comprising one of the nation’s cleanest and lowest-cost power generation fleets. The company’s Constellation business unit provides energy products and services to approximately 1.8 million residential, public sector and business customers, including more than two-thirds of the Fortune 100.

Exelon was involved in the taskforce that wrote the comment letter submitted by the Edison Electric Institute (EEI) and the American Gas Association (AGA). We support substantially all of the conclusions that were reached in that comment letter but wanted to provide the additional comments below.

- Exelon opposes amortizing goodwill and supports modifying the goodwill impairment test. Exelon agrees with the comments in the EEI and AGA comment letter that any assigned amortization period would be arbitrary and would not provide more meaningful information as to the value of goodwill under the current impairment model. Amortization, while a conservative method of expense recognition and asset valuation, could result in the premature recognition of expense and the undervaluation of goodwill.

- Exelon supports removing the annual requirement to assess goodwill for impairment (qualitatively or quantitatively) and utilizing a trigger-based impairment model. While Exelon has achieved cost savings from utilizing the qualitative test allowed in ASU 2011-08, the annual requirement to test goodwill for impairment continues to be a costly process. Most of Exelon’s goodwill is assigned to its regulated utility reporting units where there is generally low risk of impairment given their cost recovery construct and relatively stable and predictable cash flows. Under the current guidance we continue to perform the annual impairment test even though facts and circumstances may indicate that the risk of impairment is remote. While the qualitative test is more efficient and less costly than a quantitative test, it still involves a certain level of internal time and effort and external costs from valuation experts and audit fees. We believe there is further opportunity to create efficiencies and reduce costs, while still providing decision-useful information to financial statement users, by removing the annual requirement to assess goodwill for impairment (qualitatively or
quantitatively) and utilizing a trigger-based impairment model. Exelon and many other companies already have internal controls in place to identify triggering events and would not have to incur any additional costs to implement the change.

- Exelon supports the option to test goodwill at a level other than the reporting unit. Generally, goodwill is created from the synergies achieved when combining the acquired business with the existing business. These synergies are not always directly attributable to one reporting unit, but to the overall newly created combined business ("combined business"). In the event there are multiple reporting units within the combined business, under current guidance, an impairment could be recognized at one of these reporting units even though the overall combined business has a market value greater than its book value. We do not believe that this impairment charge would provide decision-useful information to a reader of the entity's financial statements since generally the readers are more concerned with the combined business performance and not an individual reporting unit within the combined business. Therefore, in these circumstances, Exelon believes that companies should have the option to assign and test goodwill at a higher level such as the reporting or legal entity level. Exelon believes that this option would need to be elected at the time any new guidance is effective or when goodwill is recorded thereafter and applied consistently for each acquisition. We believe this approach would also achieve cost savings for companies as the allocation of goodwill to multiple reporting units can be time consuming and complex, which leads to additional internal and external costs for preparation and review.

- While Exelon does not support an amortization model, if the Board decided to adopt an amortization model, Exelon would support the approach to extend the private company alternative to subsume certain non-contractual customer related intangibles (CRIs) and all non-compete agreements (NCAs) into goodwill. Separately presented CRIs and NCAs do not provide decision-useful information to investors since they are not typically sold separately. The measurement of these types of intangible assets is inherently subjective and can require external costs that can be considerable relative to the limited benefit to investors.

- Consistent with the EEI and AGA comment letter, Exelon opposes changes to the existing disclosure requirements. We believe the current goodwill disclosure requirements, along with SEC requirements such as those related to Management's Discussion and Analysis, provide the appropriate location for and level of information related to management's assessment of economic conditions, goodwill, and the overall value of the business. Requiring external disclosures of every instance of a goodwill impairment test, regardless of whether an impairment was recorded, may be misleading to users in determining the risk inherent in an entity's financial statements.

We appreciate your consideration of these comments. If you have questions or would like to discuss this matter further, please contact me at 630-437-2252 (or alexander.scarpelli@exeloncorp.com).mailto:

Respectfully submitted,

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Exelon Corporation