October 7, 2019

Technical Director
File Reference No. 2019-720
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Delivered Electronically

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

Dear Technical Director:

Charter Communications Inc. (“Charter”) is pleased to offer comments on the Financial Accounting Standards Board’s (“the Board”) Invitation to Comment on Identifiable Intangible Assets and Subsequent Accounting for Goodwill (the “Comment Letter”). Charter is the second largest cable operator in the United States and a leading broadband communications services company providing video, Internet and voice services to approximately 28.7 million residential and small and medium business customers at June 30, 2019. We also recently launched our mobile service to residential customers. In addition, we sell video and online advertising inventory to local, regional and national advertising customers and fiber-delivered communications and managed information technology solutions to larger enterprise customers. We also own and operate regional sports networks and local sports, news and community channels.

Charter had total revenues of approximately $43.6 billion for the latest fiscal year ended December 31, 2018 and is a public registrant whose common stock is listed for trading on the NASDAQ Global Select Market under the symbol: CHTR.

While we applaud the Board’s ongoing efforts to reduce the cost and complexity of accounting for goodwill, Charter does not support an optional election for public companies to amortize goodwill. We believe an optional election would create income statement comparability issues between companies who elect to amortize goodwill and those with goodwill who elect not to amortize. In addition, Charter does not support a mandatory requirement for public companies to amortize goodwill as that too would create unnecessary income statement comparability issues between public companies who have grown organically and those who have grown through merger and acquisition activities.

The impact of goodwill amortization on the income statement, specifically net income and earnings per share, would likely not be viewed by public companies and financial statement users as meaningful to the entity’s operating performance. Therefore, we believe most public companies would implement non-GAAP financial measures to add back goodwill amortization to net income and earnings per share. The addition of non-GAAP financial measures would impact comparability and usability of financial statements and further complicate financial disclosures.
Goodwill amortization would also result in a lack of transparency to a company’s effective tax rate. For example, if non-deductible goodwill amortization were treated as a permanent difference, that treatment would create an unusual increase in the effective tax rate. Additional investor communications, disclosures, and non-GAAP financial measures would likely be needed to reconcile to the actual effective tax rate for the users of the financial statements.

On a cost-benefit basis, we believe the implementation of the optional Step 0 qualitative screen (ASU 2011-08) and removal of the Step 2 implied purchase price allocation from the impairment test (ASU 2017-04) were reasonable measures taken by the FASB to reduce the costs and burden in performing an annual impairment assessment under the existing goodwill impairment model for public companies. Additionally, we would be supportive of other measures to reduce the cost and complexity of the goodwill impairment model, without amortizing goodwill, such as moving up the level of impairment testing from the reporting unit level to the segment level.

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The foregoing comments notwithstanding, if the end result of this Invitation to Comment and subsequent FASB deliberations is to reintroduce goodwill amortization for public companies we would offer the following recommendations on goodwill amortization.

We recommend not permitting optionality in electing goodwill amortization in order to minimize income statement comparability issues. We also recommend a default amortization period to eliminate management judgment and non-uniformity of amortization periods.

A 10 year goodwill amortization period allowed by the Private Company Council would appear to be an extremely short period for public companies to amortize goodwill. For some entities, this would result in an unrealistic annual burden to the income statement, particularly when the benefit period from the acquired goodwill is based on cash flow modeling beyond a 10 year period including a terminal value. Understandably, there is not a one-size fits all amortization period, but we believe the default period should be set in the 20-40 year range. Selection of a default goodwill amortization period significantly shorter than the benefit period, primarily to achieve sufficient headroom in the impairment test, would disregard the value of the acquired goodwill asset and conceptually be similar to simply collapsing goodwill directly into equity.

If goodwill is subject to amortization, we strongly encourage the FASB to give consideration to amortizing other indefinite-lived intangibles that are separable from goodwill. Amortization presented in the income statement is generally a reflection of the consumption of an acquired asset or the notional period in which an entity recognizes the benefits of such acquired asset. Other indefinite-lived intangibles could be assigned a notional period of benefit in which the acquired asset is consumed similar to acquired goodwill. Examples of separable indefinite life intangibles in our industry include cable franchise rights, wireless spectrum and tradenames. Although these intangibles may be separately measured on the balance sheet, their realization is economically inseparable from the entity, the same as goodwill. The maximum amortization period for indefinite-lived intangibles could be set to match the default goodwill amortization period for consistency across these similarly created acquired assets. If the maximum period of other indefinite-lived intangibles is not addressed independently from goodwill, we recommend
allowing for other indefinite-lived intangibles to be subsumed into goodwill upon adoption of goodwill amortization and upon future business combinations.

If goodwill is to be amortized for taxable entities we believe the FASB should discontinue the prohibition of deferred tax liability recognition on non-deductible goodwill. Book amortization of goodwill would result in a temporary difference instead of a permanent difference in the income tax provision. Deferred tax benefit recognized on goodwill amortization would result in a more transparent effective tax rate. Deferred tax liabilities could be recognized using a simultaneous equation upon an entity’s adoption of goodwill amortization, with a corresponding adjustment to goodwill, thereby having no impact to net assets of an entity. While recording deferred tax liabilities upon the adoption of goodwill amortization may be perceived as contrary to a simplification effort, the elimination of component 1 and component 2 goodwill accounting would be a welcomed simplification in addition to the more transparent effective tax rate.

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In summary, we think goodwill amortization for public companies will promote the proliferation of more non-GAAP disclosures, create unnecessary financial statement comparability issues, and does not improve usability of the financial statements. If goodwill amortization is ultimately reintroduced, we think all optionality in adoption and judgement in amortization period should be eliminated with a default amortization period in the 20-40 year range. Other indefinite-lived intangibles should be considered for a maximum amortization period if goodwill amortization is allowed or required. The prohibition of deferred taxes on non-deductible goodwill should be revisited to improve effective tax rate transparency if book goodwill is to be amortized.

We appreciate the opportunity to provide comments on the Invitation for Comment.

Respectfully submitted,

/s/ Kevin D. Howard
Executive Vice President, Chief Accounting Officer and Controller
Charter Communications, Inc.