October 7, 2019

Technical Director
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Financial Accounting Standards Board
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Telephone and Data Systems, Inc. ("TDS") values the opportunity to provide comments on the Financial Accounting Standards Board’s ("FASB" or the "Board") project on certain identifiable intangible assets acquired in a business combination ("Acquired Intangibles") and subsequent accounting for goodwill. TDS is a diversified telecommunications company that provides wireless services as well as wired broadband, video, and voice services through its subsidiaries.

We are supportive of the Board’s effort to address concerns regarding the costs and complexity of the rules concerning Acquired Intangibles and the subsequent accounting for goodwill. The rules are subjective and complex and generally require preparers of financial statements of public companies to hire third-party specialists ("Specialists") one or more times per year in order to comply with the standards. The involvement of Specialists also adds effort and cost to the external audit process. TDS believes a more transparent and easily-understood approach, such as the option to subsume Acquired Intangibles into goodwill and subsequently amortize the balance, would be preferable. Such an alternative approach would reduce recurring costs for preparers while still providing useful information, such as the portion of purchase price allocated to intangibles acquired in an acquisition, to users of financial statements. Our detailed responses to the Board’s questions for respondents are included within the Appendix to this letter.

Thank you for the opportunity to comment. We would be pleased to discuss our comments in more detail with the members of the Board or FASB Staff.

Sincerely,

Anita Kroll
Vice President, Controller, and Chief Accounting Officer
Telephone and Data Systems, Inc.
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APPENDIX: QUESTIONS FOR RESPONDENTS

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

The FASB defines goodwill as “An asset representing the future economic benefits arising from other assets acquired in a business combination or an acquisition by a not-for-profit entity that are not individually identified and separately recognized.” Similarly, TDS believes that goodwill reflects a premium where the fair value of the entity exceeds the aggregate fair value of the individual net assets of the enterprise – this premium relates to the entity’s ability to generate cash flow synergies from the unique characteristics of the entity such as, but not limited to, the collection of assets, employees, and market position.

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.

No. In our experience, financial statement users are often focused on measures of cash flows of a reporting entity, such as cash flows from operating activities. As goodwill impairment is a non-cash expense that is non-recurring and may be a lagging indicator of performance, TDS does not believe the cost of completing goodwill impairment tests required by the current accounting standards, especially in the absence of a triggering event, is commensurate with the potential benefit to financial statement users.

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.

TDS supports goodwill amortization with impairment testing as it could result in a significant cost savings in comparison to the current standard. Under the current standards, achieving compliance is a rigorous, complex, and time consuming process. As such, TDS must engage costly Specialists and commit significant internal resources to complete the compliance process effectively. Amortization would reduce the balance sheet over time and also reduce the stress on the impairment test in later years as both the quantitative materiality of the account and the valuation which must be obtained to “pass” the impairment test decrease.

From the standpoint of an investor, the amortization of goodwill into earnings over time is beneficial as it matches the cost of the acquisition with the assumed benefits of the acquisition over time. This contrasts with the current model which does not provide matching over time and instead results in periodic non-recurring income statement expense recognition.

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).

TDS supports the use of a default period with an option (but not a requirement) for the reporting entity to justify an alternative amortization period and provide disclosure related to this judgment, if the option is elected.

TDS supports the inclusion of a default period because it is inherently challenging to determine a “useful life” for an acquired business. Such a determination may be challenging to reconcile with the going concern assumption. Additionally, determining a useful life would require judgment and additional cost, including the potential use of Specialists, for preparers and would reduce comparability for financial statement users.

TDS believes that aligning the default period with the tax regulations (15 year amortization) further reduces complexity and cost for preparers and provides better comparability for financial statement users.
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. As long as the amortization method and amortization period allow for a reasonable basis to attribute the cost of goodwill over the time in which the related benefits are expected to occur, amortization would be an improvement from the current model. A relatively simple method, such as a straight-line amortization method, is generally understandable to financial statement users and provides for a reasonable basis to recognize the cost of the acquisition over time.

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.

Yes. However, TDS believes that the selection of an amortization period other than the default should be optional and should be disclosed, given that alternative amortization periods reduce financial statement comparability. TDS believes the cost of requiring the reporting entity to determine the amortization period, which would likely require the involvement of Specialists, outweighs the benefits to users of the financial statements.

7.1 Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test?

Yes. The elimination of Step 2 of the goodwill impairment test has reduced the cost of compliance. Step 2 required additional valuation activities, including determining the fair value of a reporting unit's recognized assets and liabilities as well as unrecognized assets and liabilities, in order to determine the implied fair value of goodwill. This exercise was time-consuming for preparers, and often required preparers to hire Specialists to assist with the work, which was incremental to the work completed as part of Step 1.

7.2 Do the amendments in Update 2017-04 reduce the usefulness of financial reporting information for users? Please explain.

No. The elimination of Step 2 has not impacted the usefulness of the information provided to users of financial statements. The determination of the implied fair value of goodwill was unnecessarily complex and challenging to describe. The subsequent methodology, where the goodwill impairment is determined by comparing the fair value of the reporting unit to the carrying value, is easier for users to understand and provides a relevant data point regarding valuation.

8.1 Do the amendments in Update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test?

Yes. However, the qualitative test requires subjective judgments that are challenging to support. Further, in practice certain quantitative prior year "clearance" benchmarks have been utilized by stakeholders that further reduce the usefulness of the amendments. Overall, while less costly than performing a Step 1 impairment test, the amendments continue to require extensive documentation and compliance efforts.

8.2 Do the amendments reduce the usefulness of financial reporting information for users? Please explain and describe any improvements you would recommend to the qualitative screen.

No. The amendments in Update 2011-08 did not reduce the usefulness of financial reporting information. The user of the financial statements still receives information on the pass/fail status of the impairment test, and the user is also made aware of the evaluation method (qualitative or quantitative).

A potential improvement to this screen would be the inclusion of a triggering event review, where annual testing would not be required unless a triggering event occurs. Upon a triggering event, a qualitative review could still be utilized to perform the required assessment.

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.

In absence of goodwill amortization, TDS supports the adoption of a model where impairment testing is only required upon occurrence of a triggering event. Consistent with the theme of TDS’s responses to prior questions, this model would reduce preparer costs and still provide useful information to financial statement users.

Similarly, a requirement to test goodwill for impairment only upon occurrence of a triggering event would also be appropriate as part of an amortization model.
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.

TDS believes that an option to test goodwill at the entity level would reduce costs for preparers by removing a level of granularity from the current process.

However, in the context of the current impairment model, an entity-level approach may reduce decision-useful information for investors as it may be able to “pass” the test even with an underperforming reporting unit. An entity-level approach would be more appropriate in the context of an amortization model where the acquisition costs are already being recognized into the income statement over time and there would be less pressure on the impairment test.

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

TDS believes a goodwill accounting model that allows for amortization is the best alternative while still maintaining the usefulness of financial reporting information provided to users.

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>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>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Amortization With impairment</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Amortization only</td>
<td>YES</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

TDS believes option (c), an amortization-only model that could also include a required impairment assessment upon a trigger event, would reduce certain preparer costs while still providing useful information to financial statement users. Option (c) is the approach preferred by TDS, but option (b), which includes an amortization model combined with an impairment test, would also represent an improvement from the current requirements.

Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

13. Please describe what, if any, cost savings would be achieved if certain recognized intangible assets (for example, non-compete 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.

Due to the complexity involved in identifying and prescribing value to discrete Acquired Intangibles, bifurcating between Acquired Intangibles and goodwill often requires substantial internal time as well as consultation with Specialists at the time of the acquisition and in subsequent periods for impairment testing. Similarly, additional external audit effort is required as the assumptions involved in these accounting analyses are often judgmental in nature and the valuation models are typically complex and intricate. These activities often do not provide benefits to an investor as they create volatility between definite vs. indefinite lived asset treatment and do not result in a consistent method of matching acquisition premium to periods of benefit. Simplification in accounting for an acquisition premium in a consolidated and consistent manner would seem to aid investors’ understanding and the ultimate usefulness of the financial statements.

14. Please describe what, if any, decision-useful information would be lost if certain recognized intangible assets (for example, non-compete 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.

As noted in the prior response, TDS believes that simplification in accounting for the elements of an acquisition premium, inclusive of goodwill and Acquired Intangibles, would aid in users’ understanding of the
financial statements. Matching the acquisition premium as a whole with the assumed benefits over time through amortization would further improve financial reporting. TDS does not believe decision-useful information would be lost if Acquired Intangibles were subsumed into goodwill.

15. How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

The initial recognition and valuation of Acquired Intangibles is subjective and imprecise. Many assumptions are required and reporting Acquired Intangibles at a granular level with different assigned values and amortization periods may actually result in a more imprecise answer over time. As such, subsuming Acquired Intangibles into goodwill would result in a less-costly accounting model that also may produce more decision-useful information.

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.

No, TDS is not aware of recent transactions where Acquired Intangibles such as noncompete agreements or customer-related intangible assets are sold in separate transactions that do not involve a business combination. However, in the industry in which TDS operates, wireless spectrum licenses may be acquired in a business combination and also separately traded in asset deals. TDS would not advocate for subsuming intangible assets such as wireless spectrum licenses into goodwill.

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.

TDS’s preference is in the order the approaches are listed (Approach #1 is the most preferable and Approach #4 is the least preferable). The identification and valuation of customer-related intangibles and noncompete agreements involves a high degree of judgment and subjectivity that does not translate into benefit to an investor and creates unnecessary costs to a financial statement preparer.

The first approach will increase comparability across financial statements (to the extent the alternative is utilized) and increase understandability and therefore usability of financial statements by investors. The second approach may also improve current reporting by providing the reporting entity an option to subsume certain other intangible assets into goodwill, based on the facts and circumstances of the business and the industry.

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.

No comment.

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.

TDS agrees that if certain Acquired Intangibles are subsumed into goodwill, the collective balances should be amortized into earnings over time. In absence of amortization, the collective balance may become overstated as the facts giving rise to the intangibles change (such as the expiration of a noncompete agreement).

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

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?

TDS believes that while this could serve as an “early warning” indicator for financial statement users, entities with similar fact patterns may differ in whether they progress to impairment testing due to the subjectivity of the application of the evaluation. That consideration, coupled with the non-cash nature of goodwill impairment expense, may reduce the benefits for financial statement users. Furthermore, the incremental disclosures could increase cost to maintain records and may result in increased audit fees.
21. What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

No Comment.

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 post-acquisition? Please explain.

The new disclosures would increase costs to maintain records and comply with requirements as well as may result in increased audit fees. Given that these intangible items do not directly result in future cash flows, the disclosure may not be beneficial to financial statement users.

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.

No Comment.

Section 4: Comparability and Scope

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.

No Comment.

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).

No Comment.

26. To what extent does non-comparability 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.

No Comment.

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 a preparer that reports in the United States without global operations, item b is most important to TDS. We believe our investors and analysts would benefit from consistency among our peer group and that could also extend to item d. Given that our peer group does not consist of private business entities or not-for-profit entities, item a. and item c. are not important factors to us.

Other Topics for Consideration

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

No Comment.

Next Steps

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

Yes.