October 7, 2019

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

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

Dear Mr. Kuhaneck:

Cigna Corporation appreciates the opportunity to comment on the Financial Accounting Standards Board’s Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill. We support the Board’s efforts to assess whether amendments to the guidance are needed to address the costs of the current accounting model for goodwill without diminishing the quality of information provided to users.

Cigna is one of the largest investor-owned global health services organizations in the United States, and has operations in selected international markets. Our insurance subsidiaries are major providers of medical, dental, disability, life and accident insurance and related products and services, the majority of which are offered through employers and other groups (e.g. governmental and nongovernmental organizations, unions and associations). Cigna also offers Medicare and Medicaid products. In addition to its ongoing insurance operations described above, Cigna has reinsurance, retirement and individual life and annuity businesses in run-off. In December 2018, Cigna completed the acquisition of Express Scripts Holding Company, which provides pharmacy benefits management and certain medical management services.

Overall, we are supportive of the changes under consideration related to the subsequent accounting for goodwill, and have provided responses to the specific questions raised in detail below. We support a model that requires amortization of goodwill and an impairment test of the remaining goodwill balance when a triggering event or indicator is present. We do not believe modification to the current accounting for identifiable intangible assets is warranted.
Cigna commends the Board’s effort to obtain input from stakeholders and would like to participate in the public Round Table currently scheduled for November 15th. We welcome the opportunity to share our perspective.

If we can provide further information or clarification or our comments, please call me at (215) 761-1170 or Timothy Holzli at (215) 761-2394. Thank you.

Sincerely,

Mary T. Agoglia Hoeltzel
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, as defined in the Glossary of ASC 350-20-20, is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. It arises from the fact that an acquirer in a business combination is often willing to pay more for a business than the sum of the fair values of the individual assets and liabilities. We believe this is the result of additional inherent value associated with the acquired business, including synergies and other benefits, which are expected to materialize over time.

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.

Cigna appreciates the steps the Board has taken in recent years to simplify the test for goodwill impairment and acknowledges these simplifications (ASU 2017-04 and ASU 2011-08) are helpful. However, we do not believe that the costs associated with the current goodwill impairment model, including the recent simplifications, justify the benefits. While these relatively recent amendments have simplified the impairment test requirements, the current impairment model continues to be operationally cumbersome and costly. Many companies, including Cigna, incur substantial costs and significant hours on internal resources and external third party valuation experts, to develop cash flow forecasts, discount rates and other key assumptions used in the model. Extensive internal control procedures exist and the required documentation as well as review time examining the inputs and outputs are considerable, not to mention the external auditor involvement time.

Despite these costs, Cigna believes the current impairment test model should be required, if entities continue to carry goodwill and do not amortize the balance (see our response to Question 3). We believe it is necessary to evaluate the recoverability of an unamortized goodwill balance, although we do question the meaningfulness and significance of potential impairments. While goodwill impairments often get publicized, the resulting impairment charge is often excluded from companies and investors assessment of earnings.

Section 1: Approach 1 – Amortizing Goodwill

Question 3 – On a cost-benefits basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

Yes, Cigna supports goodwill amortization with impairment testing based only on triggering events, without the annual testing requirement. Goodwill reflects the cost incurred to acquire a business and on a conceptual basis, we believe that goodwill should be amortized and allocated to the periods in that benefits are recognized (i.e. – future synergies).

Goodwill amortization with impairment testing upon a triggering event would involve much less cost and effort for companies without sacrificing decision-useful information to users. We support the triggering event impairment model only when goodwill is amortized, since the carrying value of goodwill will decrease over time, making it less likely that the carrying value of goodwill exceeds its fair value. We do not support the indicator-only impairment test if goodwill is not amortized as the
carrying value of goodwill remains unchanged over time and changes in market conditions, business operations or other factors can greatly influence the fair value assessment of the company such that the original goodwill and carrying value may not be recoverable.

**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 judgements).

We support an approach that allows for management justification of a reasonable estimate for the amortization period. Each transaction is unique and will provide different benefits to an acquiring company. We believe management should be able to determine a reasonable estimate for the amortization period, based on expected synergies or cash flows, the useful life of other acquired assets and/or other factors unique to the business combination.

As a practical expedient, we support a default period over which to amortize goodwill and believe that management should be able to elect, as an accounting policy decision, a standard default period (of 15 years) for each acquisition. However, we do not support a minimum or maximum default period. Management may determine a more appropriate amortization period than the standard default period (we propose 15 years as discussed below), based on the following factors and considerations:

- Nature, timing and extent of expected synergies  
- Timing and size of the transaction  
- Estimated useful life of other identifiable intangible assets, particularly customer relationships  
- Other market forces including technology obsolescence, pace of change in the industry, business and economic data

Consistent with current requirements for identifiable intangible assets, management should provide a clear and supportable justification for the amortization period selected and provide additional disclosures in this area (see Question 6). The option of using a default period should be allowed, to ease the burden for preparers. We do not believe the cost of determining a more accurate amortization period, based on the above factors, will always exceed the benefit, and therefore support having a standard default amortization period as well. This would provide consistency and comparability, without introducing significant costs.

While no one default period is ideal, we propose the use of a 15 year amortization period. A 15 year default period would align with the tax accounting goodwill amortization period. While there may be benefits to other default periods, such as a 10-year period to align with the private company alternative, we believe the benefits of simplifying the tax and book periods using a 15- year period outweighs the benefits of comparability between public and private companies which use a 10-year period.
**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, except that we do not believe a trigger-only impairment test is adequate if goodwill is not amortized. See our response to Question 3 above.

**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.

Consistent with the requirements for general intangible assets other than goodwill as prescribed in ASC 350-30-50, we believe disclosures for goodwill amortization should include the weighted-average amortization period. A description of the Company’s accounting policy (standard default amortization period or management determined amortization period) should also be disclosed, and if a period other than the default period is used, a brief description of the factors used in determining the period.

Section 1 – Approach 2: Modifying the Goodwill Impairment Test

**Question 7** - Do the amendments in Update 2017-04 (eliminated Step 3 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2018-04 reduce the usefulness of financial information for users? Please explain.

See our response to Question 2 above.

**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.

See our response to Question 2 above.

**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 testing at least annually? Please explain in your response.

See our response to Question 2 above.

**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 reporting unit)? Please explain why in your response.

We support a model that allows companies the option to test goodwill for impairment at either the entity level or the reporting unit level with disclosure about such election. This accounting policy election should remain consistent from period to period.
**Question 11** - What other changes to the impairment test could the Board consider? Please be as specific as possible.

If the Board elects to incorporate an amortization model for the subsequent accounting for goodwill, we request that the Board consider aligning the impairment test for goodwill to use an undiscounted cash flow model consistent with the impairment test for other amortized intangibles under ASC 360-10.

**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>--</td>
<td>--</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>
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**Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination**

**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.

Cigna does not support subsuming certain intangible assets into goodwill. We believe the essence of these various other intangible assets are unique and distinct from goodwill and provide separate benefits. Additionally, we believe investors are interested in the valuation of the different asset components acquired in a business combination.

**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.

We believe the recognition of identifiable intangible assets provides users with decision-useful information, particularly around understanding the nature of the net assets acquired. If these were subsumed into goodwill, such information and disclosures as currently provided would not exist.
**Question 15** - How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

While we acknowledge that the fair value measurement of certain recognized intangible assets (for example, customer relationships and noncompete agreements) are subjective, we do not believe this is any different from other fair value measurements used in other areas of GAAP.

**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.

In our industry, it is not common practice to sell identifiable intangible assets outside of a business acquisition, but we understand this does occur.

**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 CRI’s and NCA’s into goodwill
b. Approach 2: Apply a Principles-Based Criterion for Intangible Assets
c. Approach 3: Subsume All Intangible Assets into Goodwill

Cigna supports Approach 4 and does not believe amending the guidance for identifiable intangibles is necessary.

**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.

Cigna supports Approach 4 and does not believe amending the guidance for identifiable intangibles is necessary.

**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.

Cigna supports Approach 4 and does not believe amending the guidance for identifiable intangibles is necessary.

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

**Question 20** - What is your assessment of the incremental cost 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 cost of providing additional disclosures regarding the facts and circumstances that led to impairment testing but no actual impairment loss, exceed the potential benefit. We are uncertain what value investors would gain in this information, and it would likely increase the time and effort spent from an internal resources and an external audit perspective.
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**Question 21** - What other, operable ideas about new or enhanced discourses would you suggest the Board consider related to goodwill?

See our response to Question 11.

**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 several years post-acquisition? Please explain.

Similar to our response in Question 20, we believe the incremental cost of providing these disclosures exceed the potential benefit. We are uncertain what additional value investors would gain from this information and believe adequate disclosure exists in ASC 350-30-50 and ASC 275-10-50 for intangible assets.

**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.

See our response to Question 4.

**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 PBE’s and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

We do not believe the noncomparability in the accounting for goodwill and certain recognized intangible assets between public business entities and private companies significantly reduces the usefulness of financial reporting information. There are other comparability differences, as overseen by the Private Company Council, including staggered effective dates for many ASC Updates issued by the FASB.

In addition, comparability between PBE’s and private business entities is not a concern for Cigna as our primary industry peers are also U.S. public companies.

**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 are many benefits to aligning the subsequent accounting of goodwill with that of identifiable intangible assets, including replacing the annual impairment assessment with an indicator-only requirement. As discussed above, moving to such a model would significantly reduce the costs incurred under today’s current GAAP requirements. We also believe the amortization of goodwill over either a standard default period, or a period determined by management utilizing specific facts and circumstances, will result in greater consistency and comparability across public business entities.
**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.

Differences currently exist in the accounting for goodwill under IFRS and GAAP and therefore we do not believe the changes contemplated should be a significant consideration.

**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.

Cigna believes that most important source of comparability is among PBEs reporting under GAAP.

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

We have no other comments at this time.

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

Yes. Cigna would appreciate the opportunity, and is able to participate in the roundtable.