October 7, 2019

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

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

Dear Chairman Golden:

The American Bankers Association1 (ABA) welcomes the opportunity to comment on Invitation to Comment: Identifiable Intangible Assets and Subsequent Accounting for Goodwill (ITC). We appreciate the Board’s continuing efforts to improve the financial accounting standards. Providing users of financial statements with accurate and usable information is critical and promotes transparency that facilitates appropriate decision making by investors. We support these objectives.

ABA strongly supports the overall project to review alternatives to the subsequent accounting for goodwill, including reconsideration of the goodwill impairment model. Goodwill is excluded from a bank’s regulatory capital, so the current accounting and impairment process ends up being, for many banks, an arduous process that often provides little value to our investors and supervisors. Banks are also users of the financial statements in making credit decisions. Credit decisions related to a borrower’s assets are based primarily on the assets that generate cash flows or that can be readily liquidated. Goodwill and its subsequent accounting are generally ignored when making those decisions.

The intangible value of an enterprise is difficult to measure and becomes even more so over time and when operating within a combined organization. Limitations on the value of this information strongly suggest that alternatives to subsequent treatment of goodwill may be broadly accepted by both bankers and bank investors. Outreach we have performed with banking analysts indicates general agreement with this assessment. With that in mind, bankers generally favor an

1 The American Bankers Association is the voice of the nation’s $18 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard more than $14 trillion in deposits, and extend more than $10 trillion in loans.
option in Generally Accepted Account Principles (GAAP) to write-off goodwill rapidly or immediately. Such treatment will greatly reduce the time and cost of subsequently accounting for an issue that provides little value to financial statement users.

Our remaining comments and recommendations correspond to specific questions posed in the invitation to comment.

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

Goodwill represents the premium for buying a business for a higher price than that supported by the identifiable assets and liabilities of that business. However, in our view this amount does not represent a probable future economic benefit. Rather, this premium represents a deployment of capital that allows the opportunity to utilize the acquired identifiable assets in combination with the company’s existing assets (prior to the acquisition) for future economic benefit in excess of the fair value of the identified acquired assets.

ABA believes a direct write-off through equity would be the most appropriate model to reflect the economics of the premium paid in excess of the identifiable assets. However, ABA notes that such specific treatment is not one of the models FASB is seeking input on, as clearly defined in the “Other Topics for Consideration” section of the ITC. Therefore, ABA has answered the remaining questions according to our preference of the choices outlined in the questions of the ITC.

**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.**

No. Goodwill is excluded from a bank’s regulatory capital and is not considered decision-useful information by our investors. Therefore, the current accounting and impairment process ends up being, for many banks, an arduous process that often provides little value to our investors and supervisors. Further, goodwill is not used in credit decision-making.

**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.**

ABA supports an option for goodwill amortization with impairment testing. Relative to the current impairment-only model, ABA supports a change to an accounting model that allows amortization, accompanied by a methodology to remove goodwill from bank balance sheets. To the extent that current accounting theory supports that goodwill is an asset, such asset should, nonetheless, be reduced as the future economic benefit of the synergies created from the
acquisition are realized. Therefore, the current impairment methodology, which is based on the valuation of the acquired assets relative to their carrying amount, does not account for the expected realization of goodwill at the time of the transaction.

**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).**

ABA supports a default period with the justification of an alternative amortization period other than a default period. ABA believes that when circumstances arise that indicate an amortization period other than the default exists, management should have the ability to reflect its view in the financial statements. For instance, a bank that has goodwill generated from a transaction that occurred more than 10 years ago may justify that an accelerated amortization schedule for the goodwill related to that transaction is appropriate based on the age of the transaction. In another example, a bank may integrate acquired businesses into the existing business in different manners that may accelerate or extend the period over which the synergies are utilized to create value.

**Questions 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. Based on our comments above, ABA believes that amortization (with an impairment assessment) is a preferred model to an impairment only model.
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.

No. ABA does not believe that investors in bank equity view goodwill and the related disclosures as decision-useful information. However, ABA does believe that amortization will reduce cost relative to the current model.

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 2017-04 reduce the usefulness of financial reporting information for users? Please explain.

ABA believes that elimination of step 2 reduces the cost to perform the goodwill impairment test. ABA does not believe the amendments in Update 2017-04 reduced the usefulness of financial information for users. Our position is that the additional information provided related to step 2 of the goodwill impairment test was not useful to bank investors.

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.

The impairment assessment process is an arduous process for many banks that often provides little value to our investors and supervisors. Therefore, not requiring the test to be performed annually, but only if a triggering event has occurred, will reduce compliance costs for preparers without reducing the usefulness of the information available to the users.

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.

ABA supports an option to test goodwill at the entity level. The goodwill impairment test under the current accounting and impairment process ends up being, for many banks, an arduous process that often provides little value to our investors and supervisors. Therefore, allowing the test to be performed at the entity level will reduce compliance costs for preparers without reducing the usefulness of the information available to the users.

Question 11: What other changes to the impairment test could the Board consider? Please be as specific as possible.
ABA does not have other changes to the impairment model for the Board to consider.

**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? 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>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.

Certain intangible assets, particularly assets that don’t trade and that are not directly tied to a related cash flow, require a disproportionate amount of resources to support the measurement in
the financial statements. Changing the intangible recognition model as discussed in question #17 would eliminate the cost of separate recognition and measurement of these assets and would reduce cost.

**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.

Certain decision-useful information could be lost if intangible assets that are related to an identifiable cash flow are subsumed into goodwill, particularly if the goodwill amortization period is significantly different from that of the intangible asset.

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

The process to measure assets that trade very infrequently, or not at all, and also are not directly tied to a related cash flow require significant judgment. Therefore, certain intangible assets, particularly assets that don’t trade and that are not directly tied to a related cash flow, require a disproportionate amount of resources to support the measurement in the financial statements.

**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.

ABA is not aware of instances were recognized intangible assets are sold outside a business combination.

**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.
ABA would support approach 2. ABA believes an intangible asset that has an identifiable cash flow or revenue stream associated with it should be recognized. For example, a core deposit intangible represents a group of core deposit accounts that are less expensive than the purchaser’s marginal cost of funds. Another example, purchased credit card relationships may represent cross selling revenue or reduced marketing costs to acquire the accounts. The related identifiable cash flow stream could be direct or indirect. An example would be an established workforce with a unique skillset necessary to support cash flows.

**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.

ABA supports approach 2. However, operability and in particular auditability should be a primary objective of a standard update.

**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.

ABA agrees that the use of approaches 1-3 would assume the amortization of goodwill. To the extent goodwill represents a separable asset, the asset is not deployable and is not utilized in an identifiable or measurable method. Therefore, amortization is the best proxy to represent utilization of the asset.

**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?

ABA does not believe that an incremental benefit exists to disclosing the facts and circumstances that led to impairment testing that did not lead to an impairment.

**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 post-acquisition? Please explain.

The assessment of cost would depend on the specifics of the additional requirements and the intangible recognition model in place. ABA is not aware of a demand for more of this information from bank investors, so to the extent incremental cost to prepare and audit the additional information would be more than trivial, we do not believe the benefit would exceed the cost.
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.

ABA believes that noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities and not-for-profit entities reduces the usefulness of financial reporting information. Bank investors and supervisors generally remove the impact of goodwill from their analysis of a bank. Further, banks as lenders generally remove the impact of goodwill when making credits decisions on PBEs, private businesses and not-for-profit entities.

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).

ABA believes providing these options to companies will help create flexibility in the standard to achieve an appropriate application for a particular industry. For example, goodwill is excluded from a bank’s regulatory capital and is generally excluded from the analyses performed by our investors and supervisors. However, ABA recognizes that goodwill may be viewed differently in other industries. Preparers in a particular industry may make different policy elections to provide information requested by the users of their financial information.

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.

ABA believes that noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under US GAAP and IFRS reduces the usefulness of financial reporting information. Bank investors and supervisors generally remove the impact of goodwill from their analysis of a bank.

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.

See comments above.

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

ABA recognizes that the immediate write-off of goodwill was explicitly excluded for consideration. However, the considered models do not fit the banking industry, and ABA’s comments above generally are intended to reflect preferences amongst the options presented. As the Board works through its technical agenda, specifically, its projects on the conceptual framework, ABA hopes that the Board revisits goodwill more broadly.

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

ABA would like to see bankers included in the roundtable.

We have prepared our comments in line with the questions posed in the invitation to comment. That said, our priority relates to communicating our overall view of goodwill (refer to comments in Question #1) and to rebalance the cost and benefits of the current model to reflect better that goodwill related information is not considered decision-useful by our investors and supervisors.

Thank you for considering our comments. If you need additional information or have questions, please contact the undersigned (jstein@aba.com; 202-663-5318).

Sincerely,

Joshua Stein