October 7, 2019

Technical Director, File Reference No. 2019-720
FASB
401 Merritt 7,
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Invitation to Comment (“ITC”) on File Reference No. 2019-720, Identifiable Intangible Assets and Subsequent Accounting for Goodwill

The American Council of Life Insurers (ACLI) greatly appreciates the opportunity to provide comments on your recently issued ITC regarding identifiable intangible assets and subsequent accounting for goodwill. The Financial Accounting Standards Board’s (FASB) efforts to get the feedback from users, preparers, and practitioners of financial reports on this topic are commendable.

Overall, the ACLI supports the option to amortize goodwill and subsume certain intangible assets into goodwill while recognizing that some reporting entities may prefer the existing framework due to entity-specific considerations.

We offer the following comments with respect to certain questions asked in the ITC.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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.

We believe providing entities the option (i.e., an accounting election) to amortize goodwill will result in significant cost savings for entities and auditors of Public Business Entities (“PBE”) financial statements. Therefore, ACLI supports the option to amortize goodwill as it provides the opportunity for each reporting entity to make a facts-and-circumstances-based decision about related costs versus benefits of retaining or changing the current accounting model. We believe the view that goodwill is a cost incurred to acquire

---

1 The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States. Learn more at www.acli.com.
a business has merit and companies who hold this view should be given the option to allocate it to the periods in which an entity recognizes the benefits of the acquisition. Based on this premise, goodwill amortization based on an appropriate amortization pattern better reflects an entity’s profit or loss after a business combination. We believe that goodwill amortization under this view is not intended to reflect a decline in value of goodwill; rather, it is intended to systematically allocate cost to the periods over which an entity obtains benefits.

We understand that some users of financial statements view goodwill impairment as a mechanism for holding management responsible for its capital allocation decisions and therefore believe that goodwill amortization would make impairment of goodwill less likely and might reduce the decision-usefulness of the resulting financial information due to potentially obscuring the economics of the underlying acquisition. However, we believe that underperformance of an acquisition against management’s expectations is most evident in the initial years following an acquisition and it is during that time when impairment information tends to be most useful. In fact, when an acquisition underperforms against management’s expectations during the first few years following an acquisition, an impairment charge might be necessary even with goodwill amortization. Further, we believe goodwill amortization can be viewed as a mechanism for holding management accountable because management would be required to reflect in earnings a portion of the purchase consideration over a period of time on a systematic basis thereby allocating the cost of acquisition over time to the related benefit.

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 default period
- A cap (or maximum) on the amortization period
- A floor (or minimum) on the amortization period
- Justification of an alternative amortization period other than a default period
- Amortization based on the useful life of the primary identifiable asset acquired
- Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
- 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).

If the FASB provides entities an option (i.e., an accounting election) to amortize goodwill, we believe that the FASB should not prescribe a default period over which entities should amortize goodwill, but instead provide entities an option to choose and justify an amortization period that reflects the period the entity expects to benefit from the acquisition. We believe this option will provide entities a cost-effective alternative to the current impairment model, and will provide these entities flexibility to communicate their expectations about the relevant amortization period. If the FASB believes it necessary to provide for a cap (or maximum) amortization period we believe such period should be no less than 20 years.

Further, we do not support a default period (even with an option to justify a different amortization period) because we are concerned auditors would set an unreasonably high bar for deviating from any default period stated in the guidance.
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.

The ACLI believes that the issuance of ASU 2011-08 which allows an entity to first assess qualitative
factors to determine whether it is necessary to perform the quantitative impairment test resulted in cost
savings to some entities without reducing the usefulness of the financial reporting information for
financial statement users.

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.

As mentioned above, we believe that underperformance of an acquisition against management’s
expectation is most evident in the first few years following an acquisition and it is during that time when
impairment information tends to be most useful. Accordingly, we believe that if the FASB provides
entities an option to amortize goodwill, FASB should remove the requirement to assess goodwill for
impairment at least annually and instead require an entity to assess goodwill for impairment upon
occurrence of an event or change in circumstances that indicates goodwill may be impaired (i.e.
following a “triggering event”). We believe that this method takes into consideration the risk of
underperformance of an acquisition in the first few years and provides cost savings to entities in the
longer term.

Section 2: Whether to Modify the Recognition of Intangible Assets in 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.

We believe that the FASB should extend the private company alternative issued in ASU 2014-18 to
public business entities, and allow the following intangible assets to be subsumed into goodwill if the
entity elects to amortize goodwill:

  a. Customer-related intangible assets not capable of being sold or licensed independently from the
     other assets of the business (CRIs)
  b. All noncompete agreements (NCAs).
We believe that the benefits of the current accounting for CRIs and NCAs acquired in a business combination often do not justify the related costs. The measurement of these assets is highly subjective, and the assets are not typically capable of being sold or licensed independently from the other assets of a business.

We believe that all other identifiable intangible assets typically are capable of generating cash flows independent of a business and are capable of being sold or licensed independently from the other assets of a business. Accordingly, we believe that all other identifiable intangible assets should continue to be measured and recognized under current accounting guidance.

We do not believe that all intangible assets acquired in a business combination should be subsumed into goodwill even if FASB allows entities to amortize goodwill, as this approach would fail to provide an accurate representation of assets acquired in a business combination. As mentioned above, our view is that intangible assets that are critical to the future success of a business and those that are capable of generating cash flows independent from a business (i.e. capable of being sold or licensed) should be separately identified and measured which would also help entities in subsequent sales of these intangible assets.

Further, while we believe it is beneficial to recognize certain intangible assets separate from goodwill in a business combination, we recognize that this means there may be intangible assets that are recognized separate from goodwill in a business combination which have an indefinite life. Under the current subsequent measurement guidance (including consideration of ASU 2014-18 for private companies), there will be an inconsistency between the treatment of goodwill and indefinite-lived intangible assets that do not qualify to be subsumed into goodwill, if the FASB decides to allow PBE’s to amortize goodwill (note that this inconsistency already exists for entities that have elected the private company alternative under ASU 2014-02). This would fail to fully achieve the objective of simplifying the subsequent measurement accounting, since companies would still have to bear the burden of testing these indefinite-lived intangible assets for impairment, and there could be inconsistencies in the subsequent accounting of these two types of assets.

As such, we believe it would be appropriate to extend the optional election that was introduced under ASU 2014-02 to any intangible assets that are determined to have an indefinite life, thereby creating consistency between the subsequent measurement of these intangible assets and goodwill under the private company alternative in ASU 2014-02.

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

**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?

**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.

We believe that current goodwill and intangible assets disclosure requirements are appropriate and we do not think any incremental benefits obtained by disclosing the facts and circumstances that led to
impairment testing that have not led to a goodwill impairment loss and quantitative and qualitative information about the agreements underpinning material intangible assets justify the incremental costs involved.

We welcome the opportunity to discuss our views and recommendations in greater detail should you have any questions.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy