October 7, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Sent via email to: director@fasb.org, File Reference No. 2019-720

RE: Invitation to Comment—Identifiable Intangible Assets and Subsequent Accounting for Goodwill
(File Reference 2019-720)

Dear Technical Director:

CliftonLarsonAllen LLP appreciates the opportunity to comment on the Financial Accounting Standards Board’s July 9, 2019, Invitation to Comment, Identifyable Intangible Assets and Subsequent Accounting for Goodwill.

The majority of our clients are private companies and not-for-profit entities. They have benefited from the Private Company Council’s (PCC) accounting alternatives related to goodwill and certain intangible assets with reduced costs of compliance with GAAP without reducing the quality of their financial information. We believe that public business entities (PBEs) would receive similar benefits from extension of the PCC accounting alternatives.

We have provided our responses to the questions for respondents included in the invitation to comment in the attachment to this letter.

Sincerely,

CliftonLarsonAllen LLP
Invitation to Comment: Identifiable Intangible Assets and Subsequent Accounting for Goodwill

CliftonLarsonAllen LLP is pleased to provide the following responses to the specific questions for respondents in the Invitation to Comment (ITC). First, we believe that no matter which path the Board decides to take related to this ITC, that the private company accounting alternatives for goodwill and certain identifiable intangible assets should be preserved for private companies. The PCC alternatives have been positively received and greatly appreciated by our clients.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

   We agree with the current definition in the Master Glossary: “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.”

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.**

   Based on our private company clients’ experiences in adopting the PCC alternative, we believe that the current impairment model does not justify the cost of providing that information. Our private companies were able to save the cost of annual impairment testing without significantly reducing information to the users of their financial statements.

   On the other hand, the feedback in the ITC on decision useful information was mixed as described in paragraphs 3 and 4 preceding question 2. We believe that in some cases impairment may indicate there is an underperforming acquisition; however, we question whether this information is lagging for users because underperformance is more likely known prior to an impairment that may be reflected in the financial statements.

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 support goodwill amortization with trigger-based impairment testing. Our private company clients have found that the cost-benefit of the PCC alternative to exceed that of the current impairment-only model. We also believe, based on this ITC and our experience with private companies, it is not clear what goodwill truly represents. This calls to question the relevance of expending costs to calculate an impairment charge and provides some indication that extending the PCC alternative to public companies is a valid point.

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).

We support the goodwill amortization period characteristics in the PCC alternative of 10 years or less if the company demonstrates a shorter useful life is more appropriate. We did consider that a shorter amortization period would possibly reduce the risk of missing a triggering event. Equity investors would receive decision-useful information when an entity justifies an amortization period other than a default period. The benefits of this information would justify the cost. We did not select the other characteristics as our private companies have found the amortization characteristics under the PCC alternative to be sufficient.

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.

Please refer to our response to question 4.

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.

Please refer to our response to question 4.

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.

Our private company clients who have not elected the amortization of goodwill have found that the costs to perform goodwill impairment testing under Update 2017-04 has been reduced without reducing the usefulness of financial reporting information.

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.

Feedback from our clients in private industry has suggested that the qualitative screen in Update 2011-08 has simplified the process and reduced the cost of goodwill impairment tests without reducing the usefulness of financial reporting information. We do not have a recommendation on improvements to the qualitative screen.
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.**

Based on our experiences with our private company clients, we support adopting an amortization model with a trigger-based impairment assessment over retaining the current impairment model. We strongly support removal of the impairment test on an annual basis mainly because we believe that amortization with a trigger-based impairment test is more relevant and provides real decision-usefulness on a real-time basis.

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.**

We support testing goodwill at the entity level for private companies. For PBEs that report operating segment information, we support testing goodwill at the segment level. This would reduce the number of tests at the reporting unit level.

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

We do not propose any other changes.

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>Yes</td>
<td>Yes</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>

Based on our experiences with our private company clients, we support amortization with impairment assessment only upon a triggering event as is currently allowed under the PCC alternative. In addition, we also believe this test would be beneficial to PBEs.
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, 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.

We believe that the PCC alternative cannot increase cost. In some cases, the marginal cost savings that may be obtained if certain recognized intangible assets were subsumed into goodwill and subsequently amortized would be the elimination of a formal valuation estimating the fair value of these assets at the acquisition date and the elimination of subsequent reviews for impairment of long-lived assets, other than goodwill, using a formal valuation.

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.

Based on our experience with private companies and feedback from users, we are not aware of any cases where decision-useful information was lost.

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

Valuation models of noncompete agreements and certain customer-related intangibles are widely understood and appear to be reliable.

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.

We have rarely seen intangible assets sold outside of a business acquisition.

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 Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill would be the best approach on a cost-benefit basis based on our client’s experiences using the PCC alternative. If this approach is not acceptable to the Board, then we would suggest Approach 4.
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.

Please refer to our response to question 17.

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.

Please refer to our response to question 17.

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?

We believe for questions 20-23, considerations and details for the extent of disclosures should be made after the model is selected.

21. What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

Please refer to our response to question 20.

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.

Please refer to our response to question 20.

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.

Please refer to our response to question 20.

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.

We do not believe that noncomparability between PBEs and private business entities or not-for-profit entities reduces the usefulness of financial reporting information. There are already many comparability differences between PBEs and private business entities. Most users of non-PBE financial reporting information have greater access to management to obtain additional information that is not obtainable by users of PBE financial statements.
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 support the extension of the PCC accounting alternative for goodwill and intangibles to PBEs. It has been the experience of our private companies and not-for-profit entities that the PCC accounting alternative has marginally reduced the cost without reducing the usefulness of their financial information.

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.

We support comparable standards for GAAP and IFRS for PBEs and encourage FASB and the IASB to continue their work on developing comparable standards.

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.

We support the extension of the PCC accounting alternative for goodwill and intangibles to PBEs. Comparability between similar entities is important to the users of financial information. Comparability of accounting for goodwill and certain recognized intangible assets among all entities reporting under GAAP would alleviate the need to restate financial statements of a private entity using the PCC alternative if acquired by PBE.

Other Topics for Consideration

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

   No.

Next Steps

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

   No.