October 7, 2019

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

File Reference No. 2019-720

Mr. Kuhaneck,

I appreciate the opportunity to comment on the FASB’s Invitation to Comment (ITC), “Identifiable Intangible Assets and Subsequent Accounting for Goodwill.”

Overall, I do not support the Board’s choice of mission in this document. Rather than attempting to improve financial reporting for those who use financial reporting to allocate capital, this ITC is more concerned with perceived costs to preparers of financial information. It has been almost 20 years since the current standards regarding intangible assets and goodwill were developed, and I have no doubt that much has been learned in that time. The standards may well need a freshening, but reversion to standards that were previously deemed unsatisfactory can hardly be called progress.

I find it very counterintuitive that, after nearly 20 years of practice, it has become an unbearable burden for companies and their auditors to account for goodwill and other intangibles in accordance with the current ASC 350. Do their problems with the current standards imply that companies have not experienced any learning curve in the application of the standards? Do the current problems companies and auditors experience with current accounting mean that their data processing and accounting systems have not been able to keep pace with the general technological progress made in the last two decades? It seems unlikely.

The nature of progress in information sciences is to make information ever more accessible, customized, and granular. In this endeavor, the Board is seeking suggestions for making information about assets more general, opaque and amorphous. I support the continuation of the present goodwill impairment model, with possible improvements. I do not support an amortization approach. My reasons for supporting the impairment model:

- The initial recognition of goodwill and its continuation in the balance sheet provides a history of transactions and capital allocation. Investors need this information for the evaluation of management’s effectiveness in allocating capital particularly through analysis of returns on assets. Amortization of goodwill erodes the usefulness of this information.

- When an impairment of goodwill or other intangibles has occurred, a real economic event occurred which made the goodwill or other intangible decrease in value. The same cannot be said for amortization; it is a decrease in the value of an asset that may or may not reflect a decrease in utility. It does not reflect the occurrence of an actual event.

- One criticism of the current impairment model is that it is a confirming or lagging recognition, and that investors cannot use it to forecast future events. I do not believe this is entirely true. An impairment charge may not help sell-side analysts forecast next quarter’s earnings or next year’s earnings. Yet they provide information about management’s capital allocation prowess, and if the same management producing impairment losses continues to allocate capital to acquisitions, their record of poor capital allocation may continue. If they allocated capital poorly before, they may do it again.
Furthermore, the disclosures surrounding the impairment model could be amplified to make them more informative and possibly more predictive. In their Management’s Discussion & Analysis, some companies currently disclose the margin by which the fair value produced by impairment testing exceeds the carrying value of the assets. This provides investors with information about the progress being made by management in carrying out its acquisition plans; it is also a signal of whether an impairment charge is in the offing. This is not a required disclosure; however, it should be. Also, amplified disclosures about the methods and assumptions used in impairment testing would enable investors to assess whether impairment testing is being executed rigorously or is simply being manipulated to avoid impairment charges.

- Investors remove impairment charges to make earnings comparable to past periods’ reporting and to other companies. This is cited as evidence that investors do not “use” the information, but in the short term, it’s really the only way they can make even comparisons. In evaluating earnings over the long term, investors may take such impairment charges into account.

Amortization does not solve this perceived shortcoming. It will be one more recurring non-GAAP adjustment made by analysts.

In sum, I recommend that the current impairment model be retained, and its disclosures improved. I also recommend that the annual testing requirement be discarded and replaced with an event-driven testing model.

In the pages that follow, I have addressed as many of the ITC questions as I could. If you have any questions about my remarks, please do not hesitate to contact me. Also, I would like to attend the November 15 roundtable, preferably in the afternoon. Best regards.

Sincerely,

Jack Ciesielski
Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

The term goodwill should be dropped from the accounting literature and replaced with a term more descriptive of what it really is: “premium paid in excess of fair value for acquired assets.” That is the one thing that is known when it is recognized. The term “goodwill” implies that an acquirer thought the price paid for the assets acquired included some unidentifiable intangible that made them worth more in their control than the market prices of those assets implied. That may or may not be true.

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.

I believe the information provided by the current goodwill impairment model justifies the cost of providing the information. Please see my comments above.

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.

<table>
<thead>
<tr>
<th>Goodwill Issues</th>
<th>Total Inspection Reports</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>9</td>
<td>173</td>
</tr>
<tr>
<td>2006</td>
<td>12</td>
<td>206</td>
</tr>
<tr>
<td>2007</td>
<td>10</td>
<td>170</td>
</tr>
<tr>
<td>2008</td>
<td>8</td>
<td>258</td>
</tr>
<tr>
<td>2009</td>
<td>13</td>
<td>214</td>
</tr>
<tr>
<td>2010</td>
<td>10</td>
<td>221</td>
</tr>
<tr>
<td>2011</td>
<td>16</td>
<td>344</td>
</tr>
<tr>
<td>2012</td>
<td>12</td>
<td>259</td>
</tr>
<tr>
<td>2013</td>
<td>18</td>
<td>256</td>
</tr>
<tr>
<td>2014</td>
<td>16</td>
<td>257</td>
</tr>
<tr>
<td>2015</td>
<td>13</td>
<td>217</td>
</tr>
<tr>
<td>2016</td>
<td>15</td>
<td>214</td>
</tr>
<tr>
<td>2017</td>
<td>7</td>
<td>190</td>
</tr>
<tr>
<td>2018</td>
<td>8</td>
<td>153</td>
</tr>
<tr>
<td>2019 (YTD)</td>
<td>8</td>
<td>82</td>
</tr>
<tr>
<td>Across the 15 years</td>
<td></td>
<td>3,214</td>
</tr>
</tbody>
</table>

I oppose goodwill amortization with impairment testing. Amortization of goodwill does not have any real meaning to a user of financial statements beyond recognizing that it’s a “non-cash charge.” There is no robust information content in the amount. Furthermore, as it erodes the recorded value of the goodwill balance, it reduces the chance that it will require an impairment charge, which may be misleading to investors when capital allocation by management has been poor.

My view is that this approach would be highly favored by auditors, which doesn’t automatically mean it’s an improvement for investors. With less goodwill at risk, less testing would be required of auditors – and consequently, less might be at risk for them during PCAOB inspections. As the table at left shows (courtesy of Audit Analytics), PCAOB inspections have consistently noted deficiencies in auditors’ examination of goodwill over the last 15 years. It’s not an insignificant level of findings each year.

I believe that with improved disclosures about assumptions and the fair value “cushions” remaining after testing, auditors would have more concrete audit work to perform and may see their inspection results improve.

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).

I would support none of the above, as none of them would provide meaningful information.

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. I am simply in favor of the existing impairment model.
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. I do not believe equity investors will receive decision-useful information from any amortization approach and that they will simply ignore it as a non-GAAP adjustment.

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.

No comment.

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.

No comment.

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.

I would support the removal of the annual testing requirement, as long as testing would be required when indicators are present that the goodwill may be impaired.

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.

I would not support testing goodwill at the entity level because it would not result in the recognition of problems within reporting units. Entity testing is a “portfolio” approach where improvements in the fair value of one reporting unit may cover up problems at another unrelated reporting unit, obscuring information that may eventually surface as a surprise to investors.

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

No comment.

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>Model</th>
<th>Impairment only</th>
<th>Amortization with impairment</th>
<th>Amortization only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do You Support the Indicated Model? Yes/No</td>
<td>Yes. It’s worked for nearly twenty years.</td>
<td>No, I don’t believe this will provide investors with useful information.</td>
<td>No, I don’t believe this will provide investors with useful information.</td>
</tr>
<tr>
<td>Do You Support Requiring an Impairment Assessment Only upon a Triggering Event? Yes/No</td>
<td>Yes. I think that this would work for investors with no loss of information, while reducing the perceived burden on preparers and auditors.</td>
<td>No, not if amortization is part of the model.</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit? Yes/No</td>
<td>No, I don’t think this will reveal problems soon enough compared to the reporting unit level.</td>
<td>No, for the reasons above.</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
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.

While I am confident there would be cost savings on the preparer side, I fail to see any benefits for users of financial statements. While the delineation of assets is fairly granular under the current model, this approach would produce opacity regarding intangible assets acquired — at a time when the conventional wisdom is that intangible assets are already not recognized well in financial reporting. At least when they are acquired, investors have an idea of their existence and worth. This proposal would be extremely regressive.

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.

See above.

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

To my knowledge, the reliability of measurement hasn’t troubled investors.

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 comment.

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.

I would only support Approach 4. I do not believe the other three approaches will provide useful, consistent and robust information to financial statement users.

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.

See response to Question 14.

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?

I believe that the incremental cost of disclosures should not be significant; it’s not as if the ones I have suggested (fair value cushion, assumptions) are new information to be developed. They are already known when the testing is done.
21. What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

As mentioned earlier, the fair value margin “cushion” and assumptions should be added.

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.

See answer 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.

None other than the ones already mentioned.

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.

I do not believe the exemption should ever have been granted to private business entities or not-for-profit entities, so I think that any non-comparability between them and PBEs is not a reason to extend improper accounting to PBEs for the sake of making them “more alike.”

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 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.

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.

Only b. is most important to me as an investor. I don’t really work with the other entities very much.

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?

Yes, I would be interested. At this time, I believe I will be able to participate.