October 7, 2019

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

Via Email to director@fasb.org

Re: File reference No. 2019-720

Dear Mr. Kuhaneck:

Grant Thornton LLP appreciates the opportunity to respond to the Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill (ITC). Many years have passed since Statement No. 142, Goodwill and Other Intangible Assets, (SFAS 142) became effective. In the interim, the Board has made important and useful improvements. We are pleased to see the Board take up a project to reconsider some of the changes that SFAS 142 introduced, in particular, the impairment-only subsequent accounting for goodwill.

We perceive two general views on the matter of goodwill. On the one hand, it is an asset recognized at acquisition that diminishes over time. On the other hand, it represents a unit of economic value that is replenished over time and its carrying amount should not change absent an impairment. We believe that the first view should drive the current project.

In short, we believe in shifting from the impairment-only model toward a combination of amortization and impairment, with the objective of reducing cost and complexity while maintaining the usefulness of goodwill presentation and disclosure. We are not supportive of subsuming currently recognized intangible assets into goodwill and in our response to Question 28 suggest that the Board reconsider the prohibition of recognizing an assembled workforce as an intangible asset. This stems, in part, from the importance of a workforce in the new definition of a business.

Our responses to select ITC questions follow.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

Goodwill is created by a purchase price in excess of the fair value of recognizable net assets acquired, often because the acquirer believes that it can achieve greater overall future cash flows than the cash flows underlying the acquisition date fair values of identifiable net assets. We agree with the current guidance that the identifiable assets and liabilities should (with some recognition and measurement exceptions) be recognized at fair value, so there often exists a residual amount of goodwill.
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 reintroducing goodwill amortization with impairment testing. There is little incremental cost to amortize goodwill. The cost of impairment testing should decrease over time as the carrying amount of goodwill decreases through amortization.

Amortization:

The current impairment-only model hinges, in part, on the theory of internally replaced goodwill. That theory is expressed in paragraph B85 of SFAS 142: “...it is appropriate to assume that acquired goodwill is being replaced by internally generated goodwill provided that an entity is able to maintain the overall value of goodwill...”. Accordingly, in SFAS 142 the Board appears to have acknowledged that acquisition date goodwill generally loses value over time; however, that systematic loss of value is not recognized if there is sufficient offsetting internally generated goodwill. As a result, when an impairment occurs in an impairment-only model, one is often unable to discern the extent to which it arose because of the systematic loss of value, the failure of the acquirer to replace goodwill (either through a strategic decision or for other reasons), and/or external economic factors that cause impairment regardless of the acquirer’s actions to replace goodwill.

Said differently, we believe that the impairment-only model often seems predicated upon something negative occurring in a particular period, when a point-in-time future impairment simply may reflect a deferred cumulative adjustment to recognize previous periods’ wasting of goodwill.

In the majority of acquisitions we have seen, we believe the most important timeframe for whether an acquisition proves to be successful, or not, is the first several years. After that, we believe the informational value of an impairment charge diminishes. For example, an impairment within three to five years of acquisition might suggest that the acquirer misestimated the value of the acquisition or failed to integrate the target. In contrast, an impairment after, for example, nine years more likely is for reasons such as technological changes that are unrelated to the success of the acquisition in the intervening years.

Impairment testing:

Our view toward impairment testing is rather straightforward. Goodwill is a significant asset in many acquisitions. A fundamental principle in the Codification is that the subsequent accounting for assets includes periodic tests of whether impairments have occurred, even when the assets are amortized or depreciated. We believe goodwill should be both amortized and tested for impairment.

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
We support a default period, but recognize the difficulty in setting a period that is meaningful in light of the economic drivers across industries and among entities in a particular industry. A default period is the simplest approach, is easy to audit, and would level the field for all acquirers.

b. A cap (or maximum) on the amortization period

We generally would not support a model that only has a cap on the period, but we believe that a cap might be necessary if the Board does not set a default period. A cap would serve to preclude the assertion, for example, that an entity’s goodwill has an indefinite life (that is, achieving an in-substance impairment-only model like we have today). We reflected upon the forty-year amortization period prior to SFAS 142 that most believed was exceptionally long, but reasonable in some instances. Therefore, we would support a cap defined as a relatively long period of time, but we are unable to suggest how long.

c. A floor (or minimum) on the amortization period

Similar to the logic in our comment above at 4.b., we believe there should be a floor that would serve to preclude an entity from nearly accomplishing an immediate write-off of goodwill by asserting an unreasonably short amortization period of, for example, one or two years. The ITC is clear that the Board is not considering immediate write-off, so a floor seems necessary.

d. Justification of an alternative amortization period other than a default period

We could be supportive of this approach, despite the incremental and subjective judgments required for entities to justify periods other than a default period, but we would be interested in the operationality of any proposed guidance before reaching a conclusion on our level of support. In a way, this might be the only approach that satisfies the ‘Goldilocks’ problem of a default life being too short for some, too long for some others, and just right for others still. Auditing management’s assertion of an alternative amortization period would be challenging because most amortizing assets, for example equipment and intellectual property, have specifically identifiable future cash flows or useful lives to use in setting an amortization period. Goodwill is supported by sufficient fair value driven broadly by cash flows beyond those that support the individual assets acquired and by other aspects of the business. Establishing, re-evaluating, and auditing an alternative amortization period likely would be difficult. See our comments at 4.e. through 4.g. below.

e. Amortization based on the useful life of the primary identifiable asset acquired

We would not support the useful life of the primary identifiable asset as determinative in setting the amortization period for reasons consistent with some of those expressed on page 12 of the ITC, such as whether the life—and it could be indeterminate—of the primary asset is reflective of the benefits of the business combination itself. Simply stated for most fact patterns, focusing on the life of one asset seems too narrow to determine the life of goodwill as a whole. However, we see 4.e. as a potential way...
forward in applying 4.d., perhaps as an indicator relevant to determining an alternative amortization period, should the Board pursue a justified alternative amortization period.

f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired

We would not support the weighted-average useful lives of identifiable asset(s) acquired as determinative in setting the amortization period and are concerned that the arithmetic involved might skew the results to very long or relatively short periods. We view this as similar to the primary identifiable asset at 4.e. and, at best, another indicator for an alternative amortization period.

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 view 4.g. like 4.e. and 4.f., above, perhaps as a consideration in determining a life, but we believe this is much more subjective and potentially harder to determine and audit. We would not support using expected synergies or other management judgments as the sole basis for a useful life because of the level of subjectivity sometimes involved with assertions of how well the combined entity will perform post-acquisition. We also would not support using the acquirer’s cash flows supplemented by incremental estimated cash flows arising from the acquiree because this measure could blur the contribution of the acquiree and might be contrary to the unit of account for subsequent accounting (reporting unit or other potential unit of account). For us to support acquired processes as a factor, we would need a further understanding of how an acquirer would approach this estimate. We speculate that estimating the life of acquired processes might be unwieldy.

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. We believe that both amortization and impairment testing should coexist in the model resulting from this project and we presume that the Board’s ultimate proposal will reflect significant research and outreach, such that the method and period are sound and operational.

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.

As to the first question, we believe yes, but it is early and these amendments have yet to be tested broadly. Based on what we have seen in practice, the amendments in ASU 2017-04 have simplified and reduced the cost of the impairment test. This is primarily because the task of performing a hypothetical business combination to determine the implied value of goodwill was quite difficult for many entities and added complexity to their financial reporting process.

We defer to financial statement users to comment on the second 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.

As to the first and third questions, we believe that the qualitative screen brings efficiencies and cost savings in most circumstances, despite some difficulties with concluding to perform a qualitative screen if some time has passed since a ‘recent fair value calculation’ has been performed, as described in Paragraph 350-20-35-3F. This passage of time, as well as considerations such as the impact of ‘headroom’ or ‘cushion’ from a previous quantitative test, may be more of an auditing concern than an accounting concern, and we do not believe the qualitative screen guidance needs amendment.

We defer to financial statement users to comment on the second 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.

We support the annual qualitative/quantitative impairment test and believe that the current model (after ASU 2017-04) is operable and should be retained to verify whether facts and circumstances have led to potential impairment. We believe there should be an annual evaluation for impairment even if the Board decides on a relatively short amortization period. We say this, in part, because goodwill can be very significant to financial statements and, unlike many amortizing assets subject to triggering event-only models, its fair value is not as easily tied to specifically identifiable cash flow streams or events. In our view, the benefit is an annual affirmation that goodwill is or is not impaired based on either the ‘totality of events or circumstances’ as noted in Paragraph 350-20-35-3E of the qualitative screen or the results of Step 1. Yes, this is monitoring goodwill more closely than many other assets. If, however, goodwill is amortized, the ‘headroom’ between fair value and carrying amount of a reporting unit (or other unit of account) presumably would increase over time, all else equal. An annual test, therefore, should become easier over time, but if there is a potential impairment, we believe an annual test would help ensure that it is identified.

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.

Optionality in general:

We would oppose providing optionality to the level at which testing is performed. For example, there could be diversity in practice and opportunities to mask impairment through entity level testing as opposed to a lower level. There would be preferability issues if there is an option for one level versus another.
Testing at a level other than the reporting unit:

We would support considering whether to change the impairment testing from the reporting unit level to the operating segment level. In our experience, many entities have had difficulties both in establishing reporting units and later changing them based on operational changes. We believe the Board has an opportunity to consider the operating segment level as it continues its current project related to segment reporting. We would welcome proposed guidance that goodwill testing should be at the operating segment level. This would provide some simplification, although there would remain reallocation and disposal accounting issues when segments change.

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

We do not have other recommendations to the Board and reiterate our support of annual testing and shifting to the operating segment level of testing.

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>Impairment only</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, although we do not object to this current model</td>
<td>No. We support annual assessment.</td>
<td>No for entity level. Yes for operating segment.</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>Yes</td>
<td>No. We support annual assessment.</td>
<td>No for entity level. Yes for operating segment.</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>Not applicable</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.

We believe that cost savings would be minimal, at best, if certain intangible assets were subsumed into goodwill. In our experience with entities that have elected the PCC alternative, the initial effort and cost is the same with or without subsuming these assets into goodwill. We have seen that valuations usually identify and capture the value of these assets even when an acquirer has elected the PCC alternative. There might be some cost savings in the subsequent accounting that stems from reduced impairment tests of the subsumed assets, but we do not believe this alternative has resulted in a significant benefit for those entities.

That said, beyond entities that elect the PCC alternative, we do not support subsuming any recognized intangible assets into goodwill. We believe that the current recognition guidance is well understood and is operational. Shifting noncompete agreements and certain customer-related intangible assets into the goodwill residual asset would not seem to be an improvement. We are concerned that partial disposals could lead to accounting difficulties. For example, assume that certain customer-related intangible assets in an acquisition are not identified and valued. Instead, these assets are subsumed into goodwill. If the entity later disposes of part of a business to which particular customer-related assets are linked, the question is derecognition of the specific assets that were sold. Some goodwill that includes these assets would be allocated to the disposal in accordance with existing guidance, but we are concerned that the allocation might not reflect the substance of the disposal if the subsumed assets were not ratably distributed between the disposal unit and what remains.

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

In our experience since the implementation of SFAS 142, the valuations of these assets is reliable, understood, and auditable.

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 are aware of these sales outside the context of a business combination. For example, intellectual property, such as licenses to formulas or designs, is sold with some regularity.

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.
Because we do not support Approaches 1 through 3, we have not ranked them. We believe Approach 4 is the only viable approach.

a. Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill

We do not support this for the reasons articulated in our response to Question 13, above.

b. Approach 2: Apply a Principles-Based Criterion for Intangible Assets

We do not support this approach and note that guidance on recognition has proved to be operational for many years. We believe it has led to relative consistency in accounting. Shifting to a principles-based criterion approach would seem to introduce diversity that stems from subjective determinations and judgments related to what is acquired.

c. Approach 3: Subsume All Intangible Assets into Goodwill

We do not support this for the reasons articulated in our response to Question 13, above.

d. Approach 4: Do Not Amend the Existing Guidance.

We support retaining the existing guidance that, as noted above at 17.b., has worked quite effectively for many years. We believe that guidance has worked effectively for many years. We believe that guidance has led to relative consistency in accounting. Shifting to a principles-based criterion approach would seem to introduce diversity that stems from subjective determinations and judgments related to what is acquired.

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.

Although we do not support Approaches 1 through 3, we reiterate our view that goodwill should be amortized. We agree that if the Board were to pursue Approaches 1 through 3, goodwill, by necessity, would have to be amortized.

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?

In a way, we interpret this question and its context as disclosing for each reporting unit (or operating segment) the particulars of each period's models, inputs, and outputs of impairment testing, with an emphasis on trends of quantified growing or shrinking 'headroom' or 'cushion' between fair value and carrying amount. Entities presumably would incur significant incremental costs to provide this information because they already have performed the testing and the only incremental cost would relate to writing the disclosure. We agree that if this level of information were disclosed, entities would be compelled to discuss forward-looking information in the footnotes. Although we might have some understanding of the value of historic
impairment testing metrics, we would be concerned if the footnotes were to include language such as ‘…and management believes that in the next X period(s), impairment will [will not] become more likely’.

Other Topics for Consideration

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

As we considered the questions in this ITC, we reflected upon the Board’s project, Improving the Accounting for Asset Acquisitions and Business Combinations. Whether in that project or this one, we would favor the Board’s reconsideration of an assembled workforce as a recognizable finite-lived intangible asset. We suggest this in light of the importance attributed to an organized workforce in the current definition of a business expressed in Paragraphs 805-10-55-5D and 55-5E. We speculate that a recognized workforce intangible asset might have a significant impact on the amount of goodwill in some acquisitions, especially when a workforce is an important driver of the purchase price, thus reducing the potential magnitude of subsequent goodwill impairment issues. This could be accomplished through the reconsideration of Paragraph 805-20-55-6 that precludes the separate recognition of an assembled workforce, or more broadly through a shift from the Topic 805 contractual-legal and separability criteria toward the Concepts Statement No. 5 asset recognition criteria approach as articulated in Paragraph 350-30-25-4.

Next Steps

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

Yes. We would be very pleased to participate in the roundtable.

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We would be pleased to discuss our comments with you. If you have any questions, please feel free to contact Douglas J. Reynolds, Managing Director, at 617.848.4877 or doug.reynolds@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP