October 7, 2019

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

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

Dear Mr. Kuhaneck:

BVA Group LLC appreciates the opportunity to comment on the Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill, file reference No. 2019-720.

Below are our responses to the questions provided for your consideration.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

Goodwill is the intangible value in a business that does not meet the criteria for classification as a separable and identifiable intangible asset. More specifically, goodwill primarily represents the present value of future economic benefits associated with future generations of expected intangible assets such as future customers or technology, or value associated with intangible assets which may not be separable, such as workforce. The combination of assets and relative values varies significantly between various transactions and entities.

Questions 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.

Yes, the benefits provided by current goodwill impairment models do provide decision useful information to investors. First, an indication of impairment of goodwill is an important signal for investors relaying information about the Company’s value. Additionally, earnings per share is still closely followed by investors and analysts in estimating future stock price. Removal of the current goodwill impairment model provides for potentially greater earnings manipulation as all other proposed approaches fail to match expenses/impairments with the economics of acquired intangible assets. Disassociation of value and expense leads to potential misrepresentation within 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 oppose goodwill amortization with impairment testing. Since goodwill is not directly observable or measurable, periodic impairment measurement provides the best way to address changes in value of goodwill.

If goodwill is allowed to amortize, over time, the hurdle for avoiding an impairment indication becomes so low as to be almost nonexistent, eliminating a potentially important signal for investors. Now that “step 2” of the impairment test has been eliminated, the cost to provide the information to the investing public is reasonable relative to the significant value it provides.

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).

We do not support an approach that involves the amortization of goodwill; however, if the Board were to decide to amortize goodwill, there are potential significant issues with all the proposed amortization periods.

   a. Goodwill is, by its nature, not a predictably wasting asset for which a reasonable default period of amortization can be derived. Any default period used would be arbitrary.
   b. Estimating the life of goodwill would require significant subjective assessment that would undermine the point of calculating such an estimate. A cap placed on the amortization period would not resolve this issue, only somewhat limit the magnitude of the impact.
   c. Same as previous response.
   d. Because goodwill is not a wasting asset and estimating the life of goodwill would require significant subjective assessment, we do not propose an alternative amortization period.
   e. The primary identifiable asset is often a wasting asset (e.g., customer-related intangibles) for which an estimated useful life can be reasonably derived and is meaningful. Since goodwill is not a wasting asset, there is little basis to tie the two amortization periods together.
   f. Same as previous response.
   g. Much too subjective and prone to error and manipulation.

Question 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, none of the amortization methods for goodwill proposed so far are appropriate or provide greater accuracy or decision-useful information to investors.
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.

A system which permits subjective assumption about the amortization period of goodwill opens the door to potentially significant earnings manipulation, or at least will mislead investors regarding earnings and earnings trends. Further, the amortization period would have to be re-evaluated periodically to test whether it is still appropriate, which fails to simplify or reduce the costs associated with impairment testing.

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.

Yes, elimination of Step 2 does appear to reduce the cost to perform the goodwill impairment test. We do not believe the elimination of Step 2 reduced the usefulness of the 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.

Yes, while initially the amendments in Update 2011-08 were open to interpretation as to how best to perform and document the qualitative screen, as adoption has increased, it has seemed to reduce the cost to perform the goodwill test to some users, albeit at the expense of reduced accuracy. For many users, the cost to perform a quantitative analysis is only nominally more (or perhaps the same), as much of the information required is readily available and prepared in the course of business.

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 are opposed to removing the requirement to assess goodwill for impairment at least annually as its removal would eliminate an important signal for the investing public.

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.

Testing at higher levels would result in less useful information. Investors receive an important signal if impairment exists within a particular reporting unit, that may not occur if there is only high-level impairment testing. Additionally, many companies have disparate reporting units that are subject to different market forces and economic trends, which would potentially allow impairment at one reporting unit to go unrecognized due to performance of another.

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

None at this time.
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>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>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The Impairment only model for Goodwill is the best way to match diminution in value to the economic reality of the goodwill. Possibly better controls or credentialing are required rather than revision or replacement.

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.

Increased allocation of value in an acquisition to goodwill will amplify the disassociation of related expenses from the timing of corresponding economic benefits. This will lead to less reliable earnings information for investors and other users of financial information. Further, it will lead to greater potential for earnings manipulation through the purchase or sale of earnings without corresponding expenses that match the timing and amount of such benefits.

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.

Earnings per share becomes less reliable as the amortization of goodwill will not likely match the economic reality of the component assets. Failure to breakout readily identifiable assets will further compound the problem and lead to even greater inaccuracies and potential for earnings manipulation.
15. How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

Noncompete models rely primarily on assumptions and estimates provided by management, which results in a degree of variability in outcomes. Customer related asset valuation models are based largely on observable historical data for the subject company and its public peer group, which provides values within a reasonably reliable range.

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.

Although we have seen cases in which recognized intangibles are sold outside of a business combination (primarily technology), it is not commonplace in our experience.

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.

Most Preferred – Approach 4. The current method of allocating value to intangibles and then measuring for goodwill impairment is the best way to match diminution in value with expenses. This leads to the most accurate estimate of earnings and limits earnings manipulation. Further, this method most closely resembles IFRS, which assists with comparability of US and foreign investment opportunities.

The current guidance best matches the economics of acquired intangible assets with the best estimate of the diminution in value and thus the costs associated with the acquisition. The concept that this rewards companies for acquisition and punishes those that develop intangible assets internally is fundamentally flawed as a company that acquires intangibles must expense the acquisition, while internally developed intangibles are presumably expensed at cost rather than amortized at fair value, and would result in otherwise higher net income.

We do not prefer any other approach listed.

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.

This would result in the subsuming of more intangibles in goodwill, thereby potentially separating expenses associated with acquired intangible amortization from the realization of the benefits of the intangible assets. Assuming that all goodwill would then be amortized over a fixed life, would benefit those companies with typically shorter identifiable intangible asset lives while punishing those with longer ones. This would result in public company financials which are less comparable and may mislead investors considering earnings and earnings trends.
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.

We generally agree; however, the amortization of the total goodwill in these approaches would be inaccurate. Subsuming intangibles into goodwill without some corresponding goodwill amortization would certainly increase the probability of impairment. Still, the goodwill amortization would not be related to the economics of the assets acquired, thereby leading to less meaningful results.

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 expect the incremental costs would be minimal and the benefits significant to users of the financial statements. The information underlying such disclosures should be readily available and likely already documented. The incremental cost to make such disclosures would likely be greatly exceeded by the benefit afforded the users of the financial statements.

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

No response at this time.

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 benefits of disclosing such information would not be worth the incremental costs. Further, any negative changes represented in (b) significant enough to trigger impairment testing would presumably be captured in the incremental disclosures discussed in 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.

No response at this time.

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.

No response at this time.
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).

This would introduce potentially significant differences in financial reporting that would make financial statements less comparable.

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 response at this time.

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.

No response at this time.

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, we are willing and able to participate in the roundtable.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Todd Fries at (214) 619-4950 or tfries@bvagroup.com, or Alex Clinton at (214) 619-4959 or aclinton@bvagroup.com

Very truly yours,

BVA Group

The BVA Group LLC