October 7, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
File Reference: 2019-720
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: 2019-720 – Invitation to Comment
Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Dear Mr. Kuhaneck:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (FASB or Board) Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill (hereafter the “ITC”).

EEI is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States. In addition to our U.S. members, EEI has more than 60 international electric companies as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States’ energy needs.
October 7, 2019
Acting Technical Director
Financial Accounting Standards Board
File Reference: 2019-720
Page 2

EEI and AGA regularly work together on projects of mutual interest and impact to the energy utility sector broadly, and the comments expressed herein represent the majority view of each organization’s member companies. We have responded only to certain questions that are most relevant to our members, providing specific comments addressing each section in the ITC below.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

EEI and AGA oppose changing the subsequent accounting for goodwill to reinstitute amortization. While the ongoing time and effort required to test for impairment can be considerable in some circumstances, any assigned amortization period would be arbitrary and would not provide more meaningful information as to the value of goodwill than the current impairment model. Amortization, while a predictable method of expense recognition and asset valuation, could result in the premature recognition of expense and the undervaluation of goodwill. We also observe that requiring amortization would not alleviate many of the costs and burdens associated with performing impairment analyses. As such, we recommend no change in the subsequent accounting for goodwill.

Additionally, we disagree that the purported poor informational value under the current impairment model justifies a change in the subsequent accounting for goodwill. Advocates of that rationale assert that goodwill impairments do not provide “predictive value,” are “confirmatory at best,” and “are generally a lagging indicator of…economic factors.” We do not believe the purpose of impairment testing (for goodwill or other assets) is to provide predictive value. Rather, an impairment test is designed to assure that the carrying amount of the associated asset is not overstated. Such tests thus are intended to be protective, not predictive, providing assurance that declines in asset values have been recognized when and as they occur.

One alternative for simplifying the existing requirements in some circumstances could be to test impairment at entity level rather than at reporting unit level. Generally, past acquisitions have resulted in expansion of the total company’s business and synergies in the overall company brand. If the overall reporting entity has a market value of equity greater than its book value of equity, an impairment charge for one reporting unit may not be decision-useful information for a reader of the entity’s financial statements.

This option has the potential to meet the Board’s objective to find a simplified and cost-effective solution to subsequent accounting for goodwill. Determining reporting units and performing the goodwill impairment test at a reporting unit level potentially involves costs and complexities that could be mitigated through an entity-level impairment test.
October 7, 2019
Acting Technical Director
Financial Accounting Standards Board
File Reference: 2019-720
Page 3

Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

EEI and AGA support Approach 4 not to amend the existing guidance on recognition of intangible assets. We believe Approaches 1 and 3 would fail to recognize distinct intangible assets as well as they are recognized under the current guidance (and would only apply if goodwill is amortized, which we do not support). We believe Approach 2 would unnecessarily introduce additional criteria that are largely already present in the identification of intangible assets because they reflect fundamental accounting requirements.

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

We believe the current goodwill disclosure requirements, along with SEC requirements such as those related to Management’s Discussion and Analysis, provide the appropriate location for, and level of information related to, management’s assessment of economic conditions, goodwill, and the overall value of the business.

We believe the notes to financial statements should be limited to those disclosures necessary to ensure fair presentation of the historical financial information. Therefore, we disagree with imposing a specific requirement to disclose facts and circumstances associated with goodwill impairment tests that do not result in impairment losses. Such disclosures may be appropriate under forward-looking SEC requirements but go beyond the scope and purpose of the notes to financial statements unless relevant for discussion in another context or deemed appropriate by management on a voluntary, entity-specific basis.

Further, we believe that disclosing such information in the notes implicitly undermines confidence in management’s responsibility to comply with generally accepted accounting principles and the auditor’s responsibility to express an opinion on management’s presentation. Requiring external disclosures of every instance of a goodwill impairment test, regardless of whether an impairment loss was recorded, could be misleading to users in determining the risk inherent in an entity’s financial statements.

Management has an affirmative duty to test for goodwill impairment and to record an impairment loss if it is required. The auditor has an affirmative duty to evaluate management’s assertions, judgments, and accounting, both as to whether a test is required and as to the results of the test. Requiring disclosure of economic factors that led to performance of an impairment test which properly resulted in not recording a loss
would have the counterproductive effect of unnecessarily raising questions about whether management and the auditor have appropriately performed their respective responsibilities.

Finally, we believe that requiring disclosure of impairment tests that do not result in an impairment loss would improperly connect judgments around internal control frameworks to external disclosure requirements. The judgments made to determine whether an indicator requires an impairment test to ensure financial statements are not materially misstated may be different than the judgments made when determining whether indicators are relevant for external disclosures.

Section 4: Comparability and Scope

EEI and AGA do not support providing public business entities options on the subsequent accounting for goodwill in order to improve comparability with non-public entities. We note that a number of areas of accounting noncomparability already exist between public, private, and not-for-profit entities. Such differences reflect, at least in part, the fact that users of those entities’ financial statements focus on different primary metrics (e.g., earnings for public entities and cash flows for private entities), as well as cost-benefit considerations that are more pronounced for non-public entities. Accordingly, we believe strict comparability is not necessary and do not support reducing consistency among public entities to achieve that objective for one isolated area of accounting.

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October 7, 2019
Acting Technical Director
Financial Accounting Standards Board
File Reference: 2019-720
Page 5

EEI and AGA appreciate the opportunity to provide our input on the ITC. We would be
pleased to discuss our comments and to provide any additional information that you
may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Senior Vice President, Edison Electric Institute

/s/ Matthew Kim

Matthew Kim
Chair, American Gas Association Accounting Advisory Council
Vice President and Gas Utilities Controller of Southern Company Gas