October 7, 2019

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

Re: File Reference No. 2019-720

Dear Technical Director,

Medtronic is submitting this letter in response to the Financial Accounting Standards Board’s (“FASB”) Invitation to Comment (“ITC”) on Identifiable Intangible Assets and Subsequent Accounting for Goodwill.

Medtronic is a public limited company (“plc”) headquartered in Dublin, Ireland. Medtronic is among the world’s largest medical technology, services, and solutions companies. Medtronic was founded in 1949 and today serves hospitals, physicians, clinicians, and patients in more than 150 countries worldwide. The Company is committed to a mission written by our founder, Earl Bakken, in 1960 that directs us “to contribute to human welfare by the application of biomedical engineering in the research, design, manufacture, and sale of products to alleviate pain, restore health, and extend life.”

Executive Summary

Medtronic welcomes the Board’s effort to gather feedback on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets.

As noted throughout this letter, we believe the time and costs required to comply with the current goodwill impairment model are disproportionate to the benefit the information provides to investors. Further, we believe conceptually that an amortization model is better than an “impairment only” model when attempting to reflect how goodwill loses value over time. We support an amortization approach supplemented by a triggering event impairment model, consistent with the current accounting model for definite lived intangible assets.

We recognize subsuming certain identifiable intangible assets into goodwill would likely result in cost efficiencies for financial statement preparers; however, we do not support this approach from a conceptual standpoint, and therefore, we are opposed to making changes to the current accounting model for definite-lived intangible assets.
Section 1: Subsequent Accounting for Goodwill

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

When we acquire a business, the assets acquired, and liabilities assumed are recorded at their respective fair values at the acquisition date in accordance with ASC 805, Business Combinations. Goodwill is the excess of the purchase price over the estimated fair value of the identifiable net assets of the acquired business.

Medtronic’s goodwill is primarily attributable to the following items: (i) future yet to be defined technologies and new customer relationships not present or identified at the time of acquisition, (ii) the existing workforce of acquired businesses, (iii) pull-through or incremental revenue of other Medtronic businesses generated by the acquisition, and (iv) cost synergies expected to arise after the acquisition of a business. Said differently, it is the future economic benefit for components of a business combination that are not individually identified and separately recognized.

Question 2: Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information?

We believe the time and costs required to comply with the current goodwill impairment model are disproportionate to the benefit the information provides to investors. Medtronic is very acquisitive, and as a result our goodwill balance has grown to $40 billion today, up from approximately $1 billion in 2001 just prior to the adoption of FASB Statements No. 141 Business Combinations and No. 142 Goodwill and Other Intangible Assets (collectively “the Statements”). Since the adoption of the Statements, Medtronic has not incurred an impairment of its goodwill balance, and as a result our impairment testing continues to expand in scope as our goodwill balance continues to increase. We currently dedicate several full-time resources for a good portion of our third quarter to perform our annual goodwill impairment test.

Question 3: On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? / 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?

We support the amortization of goodwill supplemented by a triggering event impairment model. Due to cost benefit considerations, we oppose the current requirement to quantitatively assess goodwill impairment annually.

In our view, a systematic amortization approach more accurately reflects the loss in value of goodwill over time relative to the current “impairment only” model, and as a result users would benefit more from this type of an approach.

As noted previously, since the adoption of the Statements in 2001, Medtronic has not incurred an impairment of its goodwill balance. This has created a de facto infinite lived asset. On the spectrum of a definite life versus an infinite life, we think goodwill more closely aligns to a definite lived asset.
Further, we believe the current “impairment only” model may provide information on a lag. If Medtronic were to have a goodwill impairment, the timing could come well after the actual underlying issue occurred. This is because we test goodwill for impairment at the reporting unit level. Additionally, it would create more income statement volatility relative to an amortization method. We believe our financial statement users pay closer attention to our Management, Discussion, and Analysis (“MD&A”) and footnotes for evidence of underlying performance issues than they do to goodwill impairment.

Lastly, we understand goodwill is tested at the reporting unit level and therefore shortly after an acquisition an acquired goodwill balance often becomes comingled with existing goodwill within an existing reporting unit. That said, we are still able to disaggregate the goodwill balance by acquisition to qualitatively assess whether the underlying items that created the goodwill balance are still present. As we look back to our $1 billion of goodwill from 2001 (the effective date of the Statements), and the additional $39 billion of goodwill Medtronic has added since then, we believe the underlying items that contributed to goodwill are either no longer present or have significantly declined in value. Keeping in mind the high technology obsolescence rate in the medical device industry, the future yet to be defined technologies and customer relationships, and the acquisition synergies from those past acquisitions have likely long since materialized, and by now, are either partially or fully realized.

**Question 4: If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? / Question 5: Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period?**

We support an approach that allows Management to select a specific useful life for goodwill. Each transaction is unique and may provide different benefits. Accordingly, goodwill useful life can vary significantly from transaction to transaction. For reference, ASC 350 Intangibles (paragraph 350-30-35-6) states that “if an intangible asset has a finite useful life....that intangible asset shall be amortized over the best estimate of its useful life. The method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up.” With this in mind, if we are able to project the cash flows for goodwill, which we believe we can, then goodwill’s useful life can be calculated using the same “economic” method that is currently used for definite lived intangible assets today.

Based on a look back analysis of recent and material historical acquisitions, we calculated goodwill useful lives in the range of 10 to 25 years. With a majority of the balance at the high end of this range.

We understand that others may support a default amortization period due to the burden of calculating the goodwill amortization period. We are also sympathetic to that approach, and are not opposed to allowing that option. Ultimately, our views on amortization versus the current impairment model do not depend on the amortization method. Regardless of the amortization method elected, we still believe amortizing goodwill is better than the current model.

Further, if an amortization model is adopted, we support a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period the guidance is effective. The offset going against retained earnings.
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 decision usefulness of financial reporting information for users? / 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?

We believe the elimination of Step 2 and the introduction of the qualitative screen are steps in the right direction, but neither of these actions have directly impacted Medtronic. As mentioned previously, Medtronic has not had a goodwill impairment, so the elimination of Step 2 has not been applied. Additionally, in our view the documentation requirements of the qualitative screen are still very rigorous and potentially more subjective, so we have not adopted that approach. We do not think either of these actions have reduced the usefulness of financial reporting information for users.

Question 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)?

We do not oppose providing an option to test goodwill at the entity level but we would not anticipate doing so for Medtronic.

Question 11: What other changes to the impairment test could the Board consider?

If the Board decides to introduce goodwill amortization with a triggering event impairment model, we believe the board should also consider how to test goodwill quantitatively if a triggering event occurs. For example, for definite lived assets that have triggering events, the impairment testing starts with undiscounted cash flows relative to the remaining useful life of the asset. We think a similar approach should be applied to goodwill if it is recharacterized as a definite lived asset. The reason being that discounted cash flows are more appropriate for indefinite lived assets that do not have a discreet useful life and cash flow forecast (i.e. assets that would need to incorporate a terminal value in the last year of the forecast). If goodwill becomes a definite lived asset, then we think it should be tested on a consistent basis with today’s definite lived intangible assets using undiscounted cash flows.
Question 12: Please indicate whether you support the following alternatives by answer “yes” or “no” to the questions in the table below.

<table>
<thead>
<tr>
<th></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</td>
<td>No</td>
<td>No</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>N/A</td>
<td>N/A</td>
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</tbody>
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Section 2: Recognition of Intangible Assets in a Business Combination

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

Subsuming customer-related intangible assets into goodwill would certainly reduce costs for Medtronic, as customer-related intangibles are often the primary asset acquired in a business combination. That said, we do not support a proposal to subsume these assets into goodwill, because we do not think it makes sense conceptually. For instance, a customer-related intangible asset could have a different useful life than goodwill. For a particular acquisition, the identifiable customer-related asset would pertain to those existing customer relationships that were acquired as part of the acquisition. Meanwhile, goodwill would be comprised of the future yet to be determined customer relationships that the acquirer obtains post acquisition. To group these two items together and apply the same useful life does not seem appropriate.

At the outset of an acquisition, the reliability of a customer-related intangible asset is no different than the reliability of a technology based intangible asset, because it is clear what customer relationships are being transferred to the acquiring entity. As time passes, it gets more difficult to assess the reliability of a customer-related intangible asset because it isn’t practical to continue tracking cash flows for a customer base that was acquired upon acquisition. Regardless, we still oppose subsuming these assets into goodwill.
**Question 16:** Are you aware of instances in which any recognized intangible assets are sold outside of a business acquisition? If so, how often does this occur?

Yes, depending on the type of asset, it happens occasionally for Medtronic. Technology based intangible assets are sold or licensed more often than other types of intangible assets. It is easier to specifically identify and separate the underlying intellectual property of a technology based intangible asset than it is other intangible assets. Customer-related tangible assets are more difficult to sell or buy outside of a business combination but there are instances this could happen. The most common example is a distributor termination. When a distributor relationship is terminated it is common for Medtronic to directly acquire the customer tender contracts that the distributor held. We are able to support these tender contracts as a customer-related intangible asset based on both the legal and separable criterion of ASC 350 Intangible Assets and Goodwill, assuming that the newly acquired assets create incremental cash flows in excess of the underlying value of the asset.

**Question 17:** Of the possible approaches presented, which would you support on a cost-benefit basis?

- **Approach 1:** Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill
- **Approach 2:** Apply a Principles-Based Criterion for Intangible Assets
- **Approach 3:** Subsume All Intangible Assets into Goodwill
- **Approach 4:** Do Not Amend the Existing Guidance

We support Approach 4, not amending the existing guidance on the recognition of intangible assets in a business combination. Intangible assets provide separate benefits from goodwill and therefore should be recognized and amortized separately.

**Section 3: Disclosures about Goodwill and Intangible Assets**

**Question 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? / **Question 21:** What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill? / **Question 23:** Are there other changes (deletions and/or additions) to the current disclosure requirements for goodwill or intangible items that the Board should consider?

In the spirit of simplifying and reducing costs, we do not support additional disclosure requirements for scenarios where impairment testing did not lead to a goodwill impairment loss.

If the Board adopts a goodwill amortization model with an option to select a useful life other than the default, then we believe it would be appropriate to disclose the rationale for the useful life that was chosen. This is consistent with current disclosure requirements for definite lived intangible assets.
Question 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?

Consistent with the response to the previous question, we do not support the disclosure of quantitative and qualitative information about the agreements underpinning material intangible items. Aside from the sensitivity of disclosing certain competitive information, we don’t think it is practical to continue tracking and disclosing this level of information.

Section 4: Comparability and Scope

Question 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? Question 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? Question 27: Please indicate the sources of comparability that are most important to you regarding goodwill and intangible assets.

We believe comparability amongst PBE’s is the most important factor to consider, as the primary users of financial statements would benefit from the application of consistent accounting principles.
Conclusion

In summary, Medtronic supports the Board's effort to gather feedback on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets. We hope the responses provided in this letter help the Board to form its opinion and recommendation for these matters.

In addition, we respectfully ask the FASB to carefully review and evaluate all comment letters received.

Sincerely,

Mary Wilcox
Vice President and Chief Accounting Officer