Mr. Shayne Kuhaneck  
Acting Technical Director  
File Reference No. 2019-720  
Financial Accounting Standards Board  
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Dear Mr. Kuhaneck:

We appreciate the opportunity to provide feedback on the Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (the ITC), issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB’s effort to gather additional information about the costs and benefits of the accounting for goodwill and certain recognized intangible assets. We encourage the Board to consider a subsequent accounting model for goodwill that would reduce complexity, while maintaining the usefulness of information provided to users of financial statements. However, we do not recommend that the Board make changes to the current model for recognizing intangible assets in a business combination as part of this project.

**Subsequent accounting for goodwill**

We are supportive of adopting an accounting model that would require goodwill amortization over a default period and only require goodwill impairment testing if there is a triggering event. We are supportive of this model because we question the relevance of the information provided by the current goodwill impairment model. The basis for this support is our belief that acquired goodwill diminishes in value over time and the costs of the current model outweigh the benefits.

Acquired businesses are generally integrated with a company’s existing business. The goodwill that is tested in the current annual impairment test often includes goodwill from prior business combinations, and the fair value of the reporting unit in the test may also include businesses developed organically from management’s ongoing investments. Although some financial statement users monitor goodwill impairment as a metric for evaluating the success of an acquisition and for evaluating the performance of management, it is challenging for them to identify acquisition-specific goodwill impairment after an acquired business has been integrated into an acquirer’s overall business (and included within one or more reporting units). As a result, the annual impairment test makes it difficult for users to hold...
management accountable for underperforming acquisitions. Therefore, we do not believe the current annual goodwill impairment test provides information that would enable users of the financial statements to assess how an acquired business is performing relative to management’s expectations.

As noted in the ITC, some users say that goodwill is often a lagging indicator of the deterioration of the fair value of a reporting unit below its carrying value. This provides further indication that the current goodwill impairment model may not be providing meaningful information for users.

The value of goodwill naturally deteriorates over time if an acquirer does not make further investments in the acquired business. Amortizing goodwill rather than testing it for impairment would capture this diminution of value. We acknowledge that the pattern of deterioration in value is likely back-loaded for most acquisitions and varies based on industry. We believe that it would be difficult to reliably develop a pattern of deterioration for all acquisitions and therefore suggest the Board consider a straight-line amortization method. A straight-line convention also is similar to that used in other places in US GAAP (e.g., fixed assets).

In recommending that the Board reduce the complexity of the subsequent accounting for goodwill, we also considered the costs associated with performing an annual impairment test. This is often a complex and time-consuming exercise, and we question whether the benefits of providing information about the annual impairment of goodwill under today’s guidance justify the costs.

Our suggested approach would require management to test goodwill for impairment if there is a triggering event. The concept of a trigger-based impairment model aligns with the current model for other long-lived assets subject to periodic depreciation and amortization (i.e., the ASC 360 impairment model). We also believe that the goodwill impairment model could be further simplified by requiring public business entities (PBEs) to test impairment at the operating segment level. Public entities are already required to determine and provide financial information about operating segments pursuant to Accounting Standards Codification (ASC) 280, Segment Reporting. We believe using estimates of fair value at this level for the impairment test would be appropriate because it aligns with how the consolidated entity is managed, and the data is already used by management.

**Identifiable intangible assets**

We do not recommend changes to the current model for recognizing intangible assets in a business combination as part of this project. However, we recommend that the Board obtain input from stakeholders to determine the benefits of the current indefinite-lived intangible assets accounting model to users. We also recommend that the Board evaluate the differences between the accounting for intangible assets acquired in asset acquisitions and those acquired in business combinations.

We believe both of these topics should be considered as part of the third phase of the definition of a business project. That is, we do not believe it is necessary to delay this project on the subsequent accounting for goodwill and believe it should move forward independently from the third phase of the definition of a business project.
Disclosures

We do not have specific disclosure recommendations for the Board at this time. We encourage the Board to consider what information users need, how they would use the information and what effect the information would have on the users’ behavior.

We also respond to the questions posed in the ITC in the Appendix to this letter.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst & Young LLP
Appendix – Responses to questions in the ITC

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

Question 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.

Question 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.

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).

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.

In a business combination, recognized goodwill is the excess of (1) the acquisition-date fair value of the consideration transferred and any noncontrolling interest in the acquiree over (2) the acquisition-date fair value of the net identifiable assets acquired and liabilities assumed in a business combination. That is, goodwill represents a residual amount.

An acquirer generally integrates the acquired business into its existing business. In such cases, goodwill follows the acquired business and is also integrated into the overall business of the acquirer. Consequently, the value of goodwill recognized in an acquisition often becomes indistinguishable from the value of the integrated business, making it difficult, if not impossible, for users to track the performance of an acquisition.
Goodwill recognized in a business combination requires ongoing investments to maintain value and will likely deteriorate over time if the acquirer does not make further investments in the acquired business. Even if an acquirer continues to invest in the business after an acquisition and creates internally generated goodwill, internally generated goodwill isn’t recognized as an asset on the balance sheet. Therefore, amortizing acquired goodwill rather than testing it for impairment captures this diminution of value.

Some users monitor goodwill impairment as a metric for evaluating the success of an acquisition and for evaluating the performance of management. However, as we said in our cover letter, the current annual goodwill impairment test makes it difficult for users to hold management accountable for underperforming acquisitions. That’s because the goodwill that is tested in the current annual impairment test often includes goodwill from prior business combinations, and the fair value of the reporting unit in the test may also include businesses that were not acquired (and for which no goodwill is recognized) but developed from management’s ongoing investment in the business. For example, an entity that integrated a poorly performing recent acquisition with a successful business that it developed organically might not report goodwill impairment because the value of the successful business could mask the decline in the value of the newly acquired business. But even when an entity recognizes an impairment of goodwill, it would be challenging for financial statement users to identify acquisition-specific goodwill impairment if an acquired business has been integrated into an acquirer’s overall business (and included within one or more reporting units).

As noted in the ITC, some users say that goodwill is often a lagging indicator of the deterioration of the fair value of a reporting unit below its carrying value. By the time an entity recognizes a goodwill impairment charge, the acquired business typically has already shown other indications of difficulties. That is, users can generally only use the current annual goodwill impairment test to confirm whether there has been a deterioration in the fair value of a reporting unit below its carrying value rather than as a leading indicator to identify underperforming acquisitions. This provides further indication that the current goodwill impairment model may not be providing meaningful information for users.

Performing an annual goodwill impairment test under today’s model is often a complex and time-consuming exercise. Our suggested approach is to require amortization of goodwill and only require management to test goodwill for impairment if there is a triggering event. Under this approach, management would test goodwill for impairment if an event occurs or circumstances change that would more likely than not result in an impairment charge. The concept of a trigger-based impairment model also aligns with the current model for other long-lived assets subject to periodic depreciation and amortization (i.e., the ASC 360 impairment model). Overall, we question whether the benefits of providing information about the annual impairment of goodwill under today’s guidance justify the costs.

We recommend that the Board require amortization on a straight-line basis over a specified default period that would not require justification, such as 10 years. Some may assert that, theoretically, the pattern of deterioration in value is likely back-loaded for most acquisitions and varies based on industry. We believe that it would be difficult to reliably develop a pattern of deterioration for all acquisitions and therefore suggest the Board consider a straight-line amortization method. A straight-line convention also is similar to that used in other places in US GAAP (e.g., fixed assets). While we note that a specified default period such as 10 years may be shorter than the conceptual life of goodwill in certain industries, we believe that requiring a default period of this length would reduce the need for entities in other industries to justify the use of shorter periods. We believe that the use of a default period would promote greater comparability across entities than other approaches identified in the ITC.
If the Board requires amortization of goodwill, we believe the Board should no longer require an annual impairment test. We recommend that goodwill be tested for impairment only upon a triggering event, similar to the current requirement for interim impairment testing in ASC 350-20-35-30. Triggering events should include the existing indicators of impairment listed in ASC 350-20-35-3C. These indicators are also included as triggering events in the accounting alternative provided for private companies and not-for-profit entities in ASC 350-20-35-66. Since the assessment of triggering events would be performed consistently with how entities currently assess goodwill for impairment between annual tests, entities are already familiar with the triggering events and have processes and controls in place to evaluate them.

Testing goodwill for impairment upon a triggering event would, in certain circumstances, still provide information to users who are concerned that the decline in the value of goodwill may exceed the amount amortized, while also reducing costs to preparers.

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.

If the Board requires amortization of goodwill, we recommend that the Board simplify the goodwill impairment model by eliminating the annual goodwill impairment test and only requiring goodwill to be tested for impairment if there is a triggering event. Please refer to our response to Question 3 for additional information.

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)? Please explain why in your response.

We observe that companies are not required to determine reporting units for any financial reporting reason other than goodwill impairment testing. One of the drivers of the complexity and cost of performing a goodwill impairment assessment today relates to identifying an entity's reporting units and determining their fair value. Identifying reporting units can be challenging, and reporting units need to be reassessed each time there is an internal organization change, a new acquisition or the sale of a business. We do not believe that providing an option for PBEs to test goodwill for impairment at the entity level would provide users with relevant information because the performance of the entire business could obscure the performance of the business into which the acquired business was integrated and decrease the likelihood of an impairment being recognized.

We recommend that the Board consider requiring goodwill impairment testing to be performed at the operating segment level. Public entities are already required to determine operating segments for segment reporting purposes pursuant to ASC 280. The operating segment level represents the level at which the chief operating decision-maker evaluates information when allocating resources and assessing performance and for which separate financial information is available. Public entities are already familiar with the provisions of ASC 280 and have established procedures to identify the operating segment level.
We believe using estimates of fair value at the operating segment level for the impairment test would be more appropriate because it aligns with how the consolidated entity is managed, and the data is already used by management. Further, operating segments would better reflect the synergies arising from acquisitions because they are the level most consistent with how the consolidated entity is managed.

**Question 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.

As previously discussed, we support an amortization model combined with a simplified impairment test, requiring an impairment test at the operating segment level only when there is a triggering event.

**Question 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.

**Question 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.

**Question 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.

As we said in our cover letter, we do not recommend changes to the current model for recognizing intangible assets in a business combination (Approach 4) as part of this project. However, we recommend that the Board obtain input from stakeholders to determine the benefits of the current indefinite-lived intangible assets accounting model to users. We also recommend that the Board evaluate the differences between the accounting for intangible assets acquired in asset acquisitions and those acquired in business combinations.

We believe both of these topics should be considered as part of the third phase of the definition of a business project. That is, we do not believe it is necessary to delay this project on the subsequent accounting for goodwill and believe it should move forward independently from the third phase of the definition of a business project.
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?

PBEs currently disclose forward-looking information in management's discussion and analysis (MD&A), which may already include discussions of facts and circumstances that could lead to goodwill impairment. For example, Item 303 of Regulation S-K indicates that registrants should describe any known trends or uncertainties that have had, or that the registrant reasonably expects will have, a material favorable or unfavorable effect on financial results. Section 9510 of the Securities and Exchange Commission staff's Financial Reporting Manual also provides guidance on the disclosure of critical accounting estimates related to goodwill impairment in MD&A. This guidance suggests that registrants should consider providing certain quantitative and qualitative disclosures for each reporting unit that is at risk of failing step one of the impairment test (before the adoption of Accounting Standards Update (ASU) 2017-04) or the quantitative impairment test (after the adoption of ASU 2017-04) because it had a fair value that was not substantially in excess of carrying value as of the date of the last impairment test.

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

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? Please explain.

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? Please be as specific as possible and explain why.

As the Board considers changes to the disclosure requirements for goodwill and intangible assets, we encourage the Board to continue asking users what information they need that is not already disclosed, how they would use the information and what effect the information would have on their behavior. Understanding how investors and other users of the financial statements use information could help the Board consider disclosure requirements in a different light in this project and future projects.

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? Please explain your response.

In many cases, we believe that concerns private companies and not-for-profit entities raise about the cost of preparing financial statements are also shared by PBEs. While we understand that there could be many benefits from aligning the accounting for all entities, we understand that the users of the financial statements of private companies and not-for-profit entities may have different needs than the users of financial statements of PBEs. However, we do not believe potential differences should keep the Board from moving forward with simplification for PBEs.
If the Board requires PBEs to test impairment at the operating segment level, we believe the alternative available to private companies and not-for-profit entities should be revised to allow for testing at the entity level or the operating segment level.

**Question 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).

We do not support an option for PBEs, because this would reduce comparability across entities and diminish the decision usefulness of the reported financial information.

**Question 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.

Comparability among all PBEs reporting under US GAAP is most important. For comparability between PBEs and private business entities and not-for-profit entities reporting under US GAAP, please refer to our response to Question 24.

**Question 29:** Would you be interested and able to participate in the roundtable?

We would be pleased to participate in the roundtable or to discuss our comments with the Board or its staff at your convenience.