October 7, 2019

Technical Director – File Reference No. 2019-720
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via E-mail:
Attn: director@fasb.org
File Reference No. 2019-720

Re: Invitation to Comment – Identifiable Intangible Assets and Subsequent Accounting for Goodwill (“ITC”)

Dear Sir or Madam:

The Travelers Companies, Inc. (Travelers) appreciates the opportunity to participate in
the Financial Accounting Standards Board’s (the “FASB” or the “Board”) Invitation to
Comment - Identifiable Intangible Assets and Subsequent Accounting for Goodwill.
Travelers is a leading provider of commercial, personal and specialty insurance
products and services to businesses, government units, associations and individuals. Our
diverse business lines offer our customers a wide range of coverage sold primarily
through independent agents and brokers.

We appreciate the Board’s decision to solicit additional feedback on whether a change
to financial reporting is warranted and, if so, whether cost-effective solutions that
maintain or improve decision usefulness are feasible related to the accounting for
certain identifiable intangible assets acquired in a business combination and subsequent
accounting for goodwill.

Goodwill

The issues raised in the ITC regarding the subsequent accounting for goodwill
juxtaposes very different approaches to the accounting for goodwill. The amortization
method assumes that goodwill has an identifiable, finite life, will decline in value, and
that the decline occurs systematically over the identifiable useful life; while the
impairment test methodology challenges whether goodwill will continue to contribute directly or indirectly to future cash flows for an indefinite time period.

The transactions that result in goodwill on the balance sheet are frequently different in nature. Transactions can range from the purchase of a small, non-integrated business to transactions that are a “combination” of two large companies that bring significant operations together. Each transaction may result in the recording of goodwill but the reasons for engaging in a transaction that resulted in goodwill are frequently different.

As time passes, the management of the combined enterprise changes and the separate characteristics of the acquired business and the acquiring entity’s existing business are lost as the businesses are integrated. We believe that because the value of goodwill diminishes over time, the subsequent accounting should reflect that diminution of value. For example, when there is goodwill that results from a “combination-type” transaction, the value of the resulting goodwill decreases as business strategies and effectiveness change with the turnover of management, and customers’ brand loyalties and preferences change due to market innovations from other market participants and other factors. As a result, we believe the Board should consider various approaches to amortization, including whether there should be a standard amortization method and defined approach to identifying an appropriate useful life. Some of the issues that should be considered are whether the selection of an amortization method and useful life should be based on management’s judgement, the time period that was used in management’s analysis upon which the decision to make the acquisition was based or a standard period of time that is applicable to all acquisitions. While the decisions made to address these questions are likely to impact financial statement comparability among public business entities (“PBEs”), the larger issue will be the impact these decisions have on the representational faithfulness of the resulting reporting and disclosures in the financial statements.

Because markets continually change, and strategies evolve to meet the changing environment, the manner in which the business is structured, how products are sold, market conditions and management strategies will likely change significantly from the date a business was acquired. The current test is focused on both current and future management strategy that may not align with the strategy that was in place at the time the business was acquired. As a result, the outcome of the goodwill impairment test may be favorable, but the expected benefits of the acquisition may have had little to do with the favorable outcome.

If the Board concludes that goodwill should be amortized, additional disclosures that may increase transparency of companies’ reporting and be beneficial to the reader include how the useful life and amortization method were determined, along with a disclosure table providing the company’s future amortization of goodwill summarized
by year (if a method other than straight line is used) depicting when the goodwill asset will be fully amortized.

For other types of acquisitions where the businesses are not integrated, the subsequent accounting for goodwill may lend themselves to ongoing annual impairment tests, especially when the purchased and acquiring entities remain separate but the acquirer’s customer loyalty, brand reputation, and/or research and development expertise may impact the future earnings of the acquired business. For example, the results of an impairment test on a resource decision to expand globally or enter a diverse market with diverse products, may provide investors and others valuable information regarding capital resource decisions made by management. If the Board were to conclude that it is appropriate to have more than one accounting model for goodwill, we believe there should be very clear criteria for reporting enterprises to determine which method should appropriately be applied so that transactions with similar characteristics are accounted for similarly.

**Intangibles – Identification**

The ITC also seeks input on the recognition of intangible assets acquired in a business combination. While the ITC discusses subsuming intangible assets into goodwill, the opposite approach may be more appropriate. The identification of additional discrete identifiable assets, in addition to noncompete agreements and customer-related intangibles during the acquisition (both with a finite life and indefinite life) can provide useful information to investors as to management’s strategy in making an acquisition. While this can be a resource intensive process, specific identification of intangibles provides not only concrete validation for the consideration paid at the time of the purchase but specifically identifies additional benefits obtained by the acquirer that were included as goodwill in the past. The amount of goodwill would be more appropriately quantified and intangible assets with finite lives would be amortized, if applicable, over the appropriate useful lives. Disclosure requirements for identifiable intangible assets could be expanded to provide additional useful information to financial statement readers regarding the determination of expected benefits of those assets so that investors have a better understanding of the rationale for the transaction.

**Subsequent Triggering Events**

A triggering event, as defined in ASC 350-20-35 and identified by SEC staff, reflects the deterioration caused by an external factor(s) or by activities of the acquirer in a post-acquisition period.

Under existing guidance, a goodwill impairment test would be performed and, if the results of the test determined that a write-down of goodwill was required, investors and other readers of the financial statements may incorrectly conclude that the write-off was
a result of the acquired business and not the result of external factors or post-acquisition activities of the acquirer. In cases where the acquired business is performing well, and an impairment was driven by factors others than the results of the acquired business, it would be informative for investors to know that the impairment was not driven by the results of the acquired business in addition to the disclosure of what the triggering events were.

Write-off of a Subsidiary’s Goodwill

Currently under ASC 350-20-35-48, a subsidiary’s goodwill is tested for impairment at the subsidiary level. If a goodwill impairment is recognized at the subsidiary level, the goodwill of the reporting unit (at a higher consolidated level) must be tested for impairment. Only if goodwill of the higher-level reporting unit is impaired would a goodwill impairment loss be recognized at the consolidated reporting level. Because of this, the current model allows the earnings of other businesses to be combined with the earnings of the poorly performing acquired business (or vice versa) and can result in no impairment at the consolidated level, thereby masking the impairment of an acquired business. If the current model is retained, we recommend that this outcome be reconsidered to determine if the methodology should be changed or additional disclosure required for such circumstances.

Summary

In summary, we support FASB’s decision to solicit feedback on simplifying the subsequent accounting for goodwill and the accounting for intangible assets. We thank you for the opportunity to be of assistance as the project progresses. We would be very pleased to share our views in any roundtable or other forum the Board may hold. If you have any questions or would like to discuss our comments, please feel free to call me at (860) 277-0537.

Sincerely,

D. Keith Bell

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