October 7, 2019

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

Re: Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill (File Reference Number 2019-720)

Dear Mr. Kuhaneck:

We appreciate the opportunity to respond to the Invitation to Comment—Identifiable Intangible Assets and Subsequent Accounting for Goodwill (the ITC). Bank of America Corporation (BAC) provides a diverse range of banking and non-banking financial services and products domestically and internationally. As one of the world’s largest financial institutions, we hold approximately $2.4 trillion of consolidated assets, including approximately $69 billion of goodwill.

While supportive of the Board’s decision to review the goodwill accounting model, we are not in favor of making any changes to it (other than allowing companies to implement Accounting Standards Update 2017-04, which will eliminate Step 2 of the goodwill calculation, bringing US GAAP in line with IFRS). Our rationale for supporting the impairment-only model is outlined below:

- The addition of amortization to Goodwill balances would result in an accounting model that is not consistent with the economics of goodwill. Specifically, we do not believe that Goodwill is a wasting asset. In considering the main drivers and highest value items embedded within Goodwill, e.g., the reputation value of a targeted company, the synergistic value of combining the combined companies’ products, workforce and other factors and the assemblage value in which the combined companies are inherently worth more than the individual companies, these items are not expected to have a finite life. Instead, these items are generally expected to provide benefits to the combined entity into perpetuity. If an amortization model is added, it will not faithfully represent the economic reality of goodwill and the ongoing economic benefits resulting from the goodwill creation. While we understand the concept that there are some minority components to Goodwill that may have a finite life, we do not believe these are the main value drivers of the Goodwill or have substantive value. In addition, we believe it would be impractical to try and specifically identify the portion of Goodwill that would have a finite versus infinite life. For example, it does not seem feasible to estimate how much Goodwill is attributable to the collective knowledge base of the workforce versus how much is attributable to the employees themselves. We believe this view is consistent, and still applicable, with the Basis for Conclusions to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (FAS 142) as to why Goodwill should not be amortized. Further, in regards to a split amortization model, this was also addressed in paragraph 82 in the Basis for Conclusion of FAS 142 where the Board concluded that segregating the portion of recognized goodwill that might not be a wasting asset from the portion that is a wasting asset would not be practicable.

- The addition of an amortization model may cause marketplace disruption, specifically in the U.S. mergers and acquisitions (M&A) market as the impact of amortization expense would need to be introduced and considered in the M&A pricing models, which could have a resulting negative effect to pricing and ability to consummate deals. For example, the implementation of an amortization model introduces expense that

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would result in a change in future profitability of a combined entity – solely due to the change in accounting model. This reduction will impact future earnings per share expectations and equity forecasts that would likely negatively impact an acquiree’s value to a potential acquirer potentially resulting in marketplace disruption, at least until any new rules are able to be incorporated, understood and properly measured. The marketplace disruption may be further exacerbated if the change in accounting model creates additional uncertainty from the interpretations and responses by other stakeholders – namely regulators, rating agencies, lending institutions, analysts and investors. For example, an acquirer would need to consider whether future Goodwill amortization would challenge any of its debt covenants and whether its lenders would object to covenant relief before closing a deal. For these reasons, we believe it is important that—should Goodwill amortization be added to the FASB Technical Agenda—a comprehensive impact assessment of the M&A market be performed prior to any rulemaking.

- There is not a need to change the current nonamortization model as the current financial reporting is functioning appropriately and well understood within the user community. We believe this is consistent with the Board’s conclusions reached during the 5 year deliberation period that occurred leading up to the issuance of FAS 142, where it was determined that the non-amortization of goodwill, coupled with impairment testing and appropriate disclosure, promotes transparency in financial reporting and provides more useful information to those who rely on financial statements. In other words, we believe that the extended diligence performed prior to the issuance of FAS 142 is still valid today and that there does not appear to be a reporting necessity to re-debate the accounting.

- We do not believe that companies would include the Goodwill amortization in assessing management performance as it is inconsistent with how entities manage their businesses. Specifically, entities do not manage a goodwill asset in their business activities and therefore would not incorporate the expense into the results used to assess the performance of the business. As a result, we anticipate that many preparers would introduce non-GAAP measures into their Form 10-Q/Ks to remove the amortization expense from its core results as they would not believe it is reflective of their current business activities. We have also been informed that analysts would similarly remove the expense from their models. Therefore, the change to the GAAP reporting would likely cause increased non-GAAP measures. We believe this result would signify that the change would not be an improvement to financial reporting and be potentially confusing for users.

- The current accounting model provides users with transparent information regarding the ability of past acquisitions to maintain their fair value and, as some believe, gives users some insight on management’s ability to integrate an acquired entity into its existing business (i.e., this method holds management accountable for its decisions regarding the acquired business). For example, if an entity did not incur an impairment during times of stress, some might view that as an indicator of the strength of the underlying business and the continued success/resiliency of post-acquisition operations. On the other hand, if an entity incurs an impairment charge, a user may evaluate the cause of the impairment and look to see what steps management may take as a result. For example, a goodwill impairment charge may be informative to a user of the financial statements in confirming that the economic projections for an acquisition have not ultimately been realized and hence may necessitate a change in strategic direction. Overall, the addition of an amortization model would reduce the information a user would receive as it pertains to a reporting entity’s acquisitions.
• The decisions in FAS 142 were made in concert with key international standard setters, who – as noted in Basis for Conclusions paragraph 8 – were concerned about an “unlevel cross-border playing field.” We believe that this same consideration not only exists, but is even more relevant given the increased global connectivity since the issuance of FAS 142. Significant accounting confusion for domestic and international companies will arise (and potentially place public companies reporting under U.S. GAAP at a competitive disadvantage) if there is not a similar amortization model concurrently adopted by the International Accounting Standards Board for companies reporting under International Financial Reporting Standards. On this topic, where the accounting is so integral to the economics, we do not believe the FASB should be enacting a unilateral change – particularly one that potentially penalizes U.S. companies without a thorough economic study of these potential impacts.

• We understand the concern over the cost of applying the annual goodwill tests and that many would like to incorporate an amortization approach as a method to alleviate these costs, however we do not believe that simply adding an amortization model would be the panacea that many expect. Similar to the amortization of intangibles, an impairment analysis would still be applicable until goodwill is fully amortized. While the test could become easier, it is unknown as to what the actual cost savings would be as a result of the change as the level of documentation is unknown and could be costly. For example, while we believe the addition of Step 0 to the goodwill impairment test has allowed for some cost reduction, we do not believe the level of cost reduction that many expected has been realized due to the amount of documentation that has been requested to support the Step 0 application. While amortization of goodwill would increase the variance between the fair value of a reporting unit and the carrying value of a reporting unit, this would not alleviate the continued need for an impairment test on the amortized goodwill balance. The cost of this ongoing impairment analysis is likely to be similar to the current impairment test.

• Further, the update to the accounting for Goodwill that eliminated Step 2 (that is also expected to reduce the cost of performing the annual impairment test for many entities) needs to be implemented and put into effect to determine its effectiveness. As this elimination will not be fully adopted until 2020, there should be a period of time to determine the amount of relief that preparers will gain from this accounting change prior to considering major changes to the Codification. Overall, we believe that the addition of Step 0 and elimination of Step 2 accounting changes should be allowed to mature and/or take effect before this topic is added to the FASB’s Technical Agenda so that any benefits resulting from these additions can be fully understood prior to implementing major changes.

In summary, our view is that the current goodwill model of non-amortization should continue for the reasons expressed above. We applaud the Board’s past efforts to simplify the annual impairment tests and would be supportive of additional improvements in this area; however, we do not believe the core approach of not amortizing a goodwill balance would have a positive impact to financial reporting.

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We appreciate the opportunity to express our views in this letter. Should you have any questions, please feel free to contact Christopher Ackerlund (980.386.3025) or me (980.387.6061).

Sincerely,

Michael Tovey
Corporate Controller

cc: Rudolf Bless, Chief Accounting Officer
Christopher Ackerlund, Accounting Policy Executive