October 7, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
File Reference No. 2019-720
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Via Email: director@fasb.org

Re: Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Dear Kuhaneck:

We appreciate the opportunity to comment on the Invitation to Comment referenced above.

By way of background, Baker Tilly Virchow Krause, LLP is an accounting firm operating across the United States as well as internationally. We have approximately 330 partners and employ more than 3,100 persons. Our practice is diverse, offering accounting and auditing services as well as tax and consulting services across a broad spectrum of industries and geographies.

Our comments will be in the form of responses to specific questions included in the Invitation to Comment.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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.

We support allowing entities the option to amortize goodwill coupled with required triggering event-based impairment testing (essentially the private company alternative allowed under ASU No. 2014-02, except for not requiring the amortization of all goodwill resulting from future acquisitions). As noted in the Invitation to Comment, there are differing views regarding whether or not goodwill systematically declines in value over time, therefore, we believe that allowing management to make that decision (i.e. whether they believe that goodwill from a particular acquisition will decline systematically over time) on an acquisition-by-acquisition basis is appropriate.
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).

We would support b., a cap (or maximum) on the amortization period, as allowing extremely long amortization periods (e.g. greater than 40 or 50 years) would not result in accounting for goodwill significantly different than the current impairment only model, especially in the early years post-acquisition. If b., a cap on the amortization period, were selected, we believe that management should also be required to disclose their rationale for the amortization period selected as it may provide decision-useful information to financial statement users.

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 usefulness of financial reporting information for users? Please explain.

Yes, based on our experience, eliminating Step 2 of the goodwill impairment test reduced the cost to perform the test, and in some cases, significantly. Regarding whether eliminating Step 2 of the goodwill impairment test reduced the usefulness of the financial reporting information provided to users, it may have slightly, but the value of that information was significantly outweighed by the cost to obtain it. In addition, due to the difficulty of performing Step 2, many times the resulting financial information was of questionable accuracy, therefore, eliminating Step 2 might actually increase the usefulness of the financial reporting information provided to users in some cases.

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? Please explain and describe any improvements you would recommend to the qualitative screen.

In our experience, it may have slightly, but the assessment was so subjective, especially when it had been multiple years since the last quantitative impairment test had been performed, that after the first year or two of Update 2011-08’s issuance, most entities we audited no longer utilized that option. Assuming that it is applied correctly, we do not believe that the amendments in Update 2011-08 reduce the usefulness of the financial reporting information provided to users.

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.

We would not be opposed to removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually, assuming that a robust, but objective triggering-event based impairment model could be developed. If the triggering-event based model was overly subjective (i.e. similar to the qualitative assessment in Update 2011-08), we would not support removing the annual impairment testing requirement.
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.

While we do support simplifying the level at which the impairment test is performed, we do not support allowing PBEs to default to testing goodwill at the entity level. Instead, we believe that the impairment test should be performed at the operating or reportable segment level as the management of PBEs are already required to track and disclose this information. Allowing PBEs to default to testing goodwill at the entity level could result in large, profitable entities avoiding the recording of goodwill impairments even when certain acquired entities are significantly underperforming expectations.

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

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. Please be as specific as possible. For example, include specific purchase price allocation or subsequent accounting cost savings. Please list any additional intangible items the Board should consider subsuming into goodwill.

Based on our experience with private entities, the cost saving derived from subsuming into goodwill certain intangible assets and amortizing them is from not having to subsequently evaluate whether triggering events requiring impairment testing have occurred and whether the pattern of customer attrition is consistent with the estimated amortization period. We believe that little cost savings is obtained during the period of acquisition, as typically, these assets still needed to be valued as part of the acquisition accounting. In addition, due to the typically short lives of noncompete agreements, the cost saving derived from eliminating the need to subsequently account for these assets is typically minimal. We also believe that subsuming in-process research and development (IPR&D) into goodwill and amortizing it could provide a cost saving. This cost savings would likely be derived from the simplification of the subsequent accounting (i.e. amortizing IPR&D as a part of goodwill) and not the initial acquisition accounting as this asset would likely still need to be measured as part of the initial acquisition accounting.

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. Please be as specific as possible. For example, include specific analyses you perform that no longer would be possible.

We do not believe any significant decision-useful information would be lost if certain recognized intangible assets such as noncompete agreements or certain customer-related intangible assets were subsumed into goodwill and amortized. As those customer-related intangible assets cannot be separated from the business itself (e.g. non-contractual customer relationships), we believe that they are closely aligned with goodwill, and therefore, recording them separately does not provide significant decision-useful information. Also, many times the measurement of noncompete agreements is of questionable reliability due to the difficulty in accurately assessing the selling party’s desire and ability to compete. In addition, there are differing views as to whether these noncompete agreements are assets of the acquired entity or transactions separate from the business combination itself. For these reasons, we do not believe that significant decision-useful information would be lost if certain customer-related intangible assets or noncompete agreements were subsumed into goodwill and amortized.
15. How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

For our viewing regarding the reliability of the measurement of noncompete agreements, please see our response to question 14. above. Regarding certain customer-related intangible assets, we believe that the initial measurement of these assets can be fairly reliable, but for the reasons discussed in question 13. above regarding the difficulties associated with the subsequent measurement of these assets, we do not believe that the subsequent measurement of these assets is sufficiently reliable to justify its cost.

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 CRIIs 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.

We would support a modified Approach 1 above, extending the private company alternative to require the subsuming of certain customer-related intangible assets and all noncompete agreements into goodwill, as, for the reasons stated in questions 13., 14., and 15. above, we do not believe that the benefits of this information (i.e. certain customer-related intangible assets and noncompete agreements) outweigh the costs of obtaining it.

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.

For the reasons stated in questions 13., 14., and 15. above, we do not believe that these items provide significant decision-useful information, therefore, we would disagree (i.e. we do not believe that subsuming these additional items into goodwill would necessitate the amortization of goodwill).

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

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?

As we believe that these facts and circumstances would be readily available to preparers, we do not believe that the incremental costs would be significant, therefore, we would support the addition of this disclosure. As a part of this disclosure, the Board might want to consider whether including a “close call” disclosure requirement might provide decision-useful information to financial statement users (i.e. when an entity “passes” the goodwill impairment test by a relatively small margin).

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.

Many times the material intangible assets acquired in a business combination are one of the most significant reasons for the acquisition, therefore, we would support such disclosure in the period of acquisition and the disclosure of any significant changes to those agreements post-acquisition.
Section 4: Comparability and Scope

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.

While it increases the complexity of the financial statement analysis performed by users of the financial statements, which is a good reason to attempt to make the accounting as consistent as possible, we do not believe that the noncomparability significantly reduces the usefulness of the financial reporting information as the differences are disclosed, and in most cases, users can make the adjustments necessary to eliminate these accounting differences.

Other Topics for Consideration

28. Do you have any comments related to the Other Topics for Consideration Section or other general comments?

- In light of the changes that the Board is considering related to the accounting for goodwill, once those changes have been finalized, we believe that the Board should consider whether it would also be appropriate to amend the related income tax accounting guidance.

- We believe that the Board should consider whether the ASC 360 impairment test should also be simplified. The level of effort required to perform the ASC 360 impairment test correctly is similar to the level of effort required to perform Step 2 of the goodwill impairment test correctly.

We appreciate the opportunity to provide the above comments and are available for further discussion with the Board if that would be useful to the process. Should you wish to discuss any of these comments, please contact David Johnson, Professional Practice Group Partner, at david.johnson@bakertilly.com or +1 (608) 240 2422.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

David A. Johnson, Professional Practice Group Partner