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October 7, 2019

File Reference: Comments on “Invitation to Comment: Identifiable Intangible Assets and Subsequent Accounting for Goodwill”

Ford Motor Company (“Ford”), a global automotive industry leader based in Dearborn, Michigan, manufactures and distributes automobiles across six continents. Ford Motor Credit Company LLC, an indirect, 100% owned subsidiary of Ford, is one of the world’s largest automotive finance companies. We appreciate the opportunity to provide input on your “Invitation to Comment: Identifiable Intangible Assets and Subsequent Accounting for Goodwill.” We believe that there are opportunities to improve the accounting for goodwill and identifiable intangible assets, as summarized below and described in more detail in the attached “Response to Questions.”

Goodwill
We feel that the present goodwill impairment model is subjective and, therefore, difficult to consistently apply. In addition, when the model does indicate an impairment, it tends to be more lagging than predictive. These factors decrease its value to financial statement users by reducing comparability and delaying the recognition of impairments. This subjectivity also increases costs to financial statement preparers because of the effort required to align operations, internal stakeholders, and auditors on the results of the impairment assessment. We believe the following recommendations will reduce subjectivity, increase comparability, reduce preparer costs, and better enable users to understand the financial statement impact of a business combination:

- Amortize goodwill over a default period
- Allow preparers to provide an objective justification for a period other than the default period
- Test for goodwill impairment upon a triggering event, rather than annually

Intangible Assets
Non-contractual intangible assets are difficult to identify and value in a business combination. Often, entities must incur costs to engage third-party firms to assist with the identification and valuation process. The identification and valuation requires judgment, and as a result, recognition of intangibles separately capitalized on the financial statements is inconsistent. These factors reduce comparability and, ultimately, the value of the information to financial statement users.
For these reasons, we recommend that non-contractual intangible assets be subsumed into goodwill. We believe this approach, along with additional disclosures about the agreements underpinning material intangible assets acquired, will improve comparability, reduce preparer costs, and provide financial statement users more decision-useful information about assets acquired.

We understand that the IASB is considering proposed updates to IFRS 3, “Business Combinations,” and IAS 36, “Impairment of Assets.” We encourage the Board to work collaboratively with the IASB to gain alignment with any proposed updates.

We appreciate the Board’s consideration of our views.

Sincerely,

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jsheph18@ford.com
Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

   Goodwill is the difference between the consideration transferred and the identifiable assets and liabilities received in a business combination. A company acquires other companies to achieve specific business objectives, such as achieving synergies, growth, competitive advantage, or improving economies of scale. These same business objectives could also be developed internally. Companies often choose to acquire versus develop internally because it may not be feasible within a reasonable time frame and can be more cost effective. Therefore, we believe goodwill represents a portion of the cost that a company would have incurred internally to achieve the same business objective.

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.

   The goodwill impairment model does provide financial statement users insight into management’s asset allocation decisions and the future outlook of a company. However, the model is subjective and requires management judgment. This subjectivity creates inconsistencies in the application of the model both internally and between financial statement preparers. In addition, any impairment indicated by the model tends to be more of a lagging indicator than predictive. These factors reduce the value of the information to financial statement users. Due to the subjective nature of the model, it is costly to apply because of the time required to align operations, internal stakeholders, and auditors on the results of the impairment assessment, more so for companies in emerging business segments.

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 goodwill amortization, with impairment testing upon a triggering event. As discussed in Question 1, we view goodwill as a cost to implement a business strategy. As such, we believe this cost should be recognized through the entity’s profit and loss, whether acquired or internally developed. Compared to the current model, goodwill amortization combined with impairment testing upon a triggering event will increase comparability between entities and reduce subjectivity. As a result, an entity’s annual effort to apply the model and achieve alignment with auditors will be reduced or eliminated. In addition, amortization along with a triggering event to test for impairment will reduce the financial statement impact of not detecting an impairment on a timely basis.

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 support a default period, with an option to justify an amortization period other than the default period. We recommend a default period of 10 years, consistent with the private company alternative, and that the justification for an alternative period be based on an objective reason. This approach would eliminate the need for a cap or floor. The advantages of our recommended approach is that it is less subjective, thereby improving comparability between entities. In addition, the option to identify an alternative period provides financial statement preparers the flexibility to better match costs of a business combination with its incremental income. We do not support approaches “e” and “f” because they become problematic to
implement when the company acquired has few identifiable assets (e.g., emerging business or service company with mostly cash and receivables). We do not support approach “g” because it is too open-ended and subjective, leading to the same issues discussed in Question 2.

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.

Yes, somewhat. Although we generally prefer to amortize goodwill, we have concerns about some amortization methods as discussed in Question 4 and would prefer that the default amortization period be 10 years, consistent with the private company alternative.

6. Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.

Yes, as long as the entity discloses the different amortization period and its justification, we believe investors would receive useful information. The cost to provide this information should not be significant. If an entity elects an amortization period other than the default period, it would have already completed an analysis to justify the alternative period; therefore, the disclosure information would be readily available.

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, the amendments reduce the cost to perform the goodwill impairment test by eliminating the Step 2 requirement (to estimate the implied fair value of goodwill). Generally no, the amendments do not reduce the usefulness of the financial reporting information because Step 1 (comparing the fair value of the reporting unit with its carrying value) can provide a comparable impairment assessment outcome.

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.

Generally, we believe the amendments in Update 2011-08 are cost neutral because they shifted the cost from calculating the fair value of the entity to gaining alignment between operations, internal stakeholders, and auditors on the qualitative assessment (see Question 2). Because it introduced more subjectivity to the impairment assessment, it could reduce comparability between entities (see Question 2). There is room for improvement as discussed in Question 9.

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 support removing the requirement to assess goodwill for impairment at least annually, and, instead, prefer a model that assesses goodwill for impairment based on a triggering event. We do not believe this change will have a significant impact on the financial statement users because the current impairment model often does not detect impairment until shortly before the write-down of the investment. Therefore, a triggering event model with a strong control framework would achieve the same result, likely with less cost.

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 support an option to test goodwill at a lower level than the reporting unit in cases when entities within a reporting unit have dissimilar economic characteristics.
11. **What other changes to the impairment test could the Board consider? Please be as specific as possible.**

None to note

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.**

<table>
<thead>
<tr>
<th></th>
<th>Do You Support the Indicated Model?</th>
<th>Do You Support Requiring an Impairment Assessment Only upon a Triggering Event?</th>
<th>Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment only</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

See our responses in Questions 3, 9, and 10 for further explanation.

**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.**

We recommend that all non-contractual intangible assets be subsumed into goodwill. We believe this would eliminate the cost incurred to identify and fair value these assets. The lack of in-house expertise to fair value intangibles often requires engagement of third-party firms to identify intangibles and perform valuations. The identification and valuation requires judgment, and as a result, intangibles separately capitalized on the financial statements can vary, decreasing the accuracy and comparability of the financial statements. Savings also would be achieved subsequent to business combination accounting by eliminating the need to test any acquired indefinite lived intangible asset separately for impairment.

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 financial statement users would lose any significant decision-useful information. Financial statement preparers are required to provide qualitative information of intangible assets that do not qualify for separate recognition. This provides users with the information required to assess the value of a business combination. In addition, the quantitative valuation of intangibles is highly subjective, minimizing the usefulness of this data to the financial statement user.

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

Per our response in Questions 13 and 14, we do not believe the measurement of recognized intangible assets often is very reliable.

16. **To gauge the market activity, are you aware of instances in which any recognized intangible assets are sold outside a business acquisition? If so, how often does this occur? Please explain.**
We are aware of instances in which certain technology and intellectual property related intangibles are sold. However, we have no assessment regarding how often this occurs.

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.

<table>
<thead>
<tr>
<th>Approach</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill</td>
<td>3</td>
</tr>
<tr>
<td>b. Approach 2: Apply a Principles-Based Criterion for Intangible Assets</td>
<td>1</td>
</tr>
<tr>
<td>c. Approach 3: Subsume All Intangible Assets into Goodwill</td>
<td>2</td>
</tr>
<tr>
<td>d. Approach 4: Do Not Amend the Existing Guidance.</td>
<td>4</td>
</tr>
</tbody>
</table>

We support Approach 2, applying a principles-based criterion, as long as the principle is defined in such a way to minimize judgment in its application. We believe this approach will simplify the identification and valuation process. One way to achieve this is by limiting the identification of intangibles to only those items supported by legal contracts or arrangements (e.g., trademark, patent, customer contract), with the amortization period based on the contract life. This approach, coupled with the amortization of goodwill, will simplify the business combination model as it relates to goodwill and intangibles and reduce diversity in financial reporting. We think Approach 3 is too broad and Approach 1 is too narrow. We do not support Approach 4.

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.

We do not recommend using the asset definition to determine the recognition of intangible assets because it is too broad and would require considerable judgment to apply. Our preferred approach is a narrow principles-based approach as described in Question 17.

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.

Yes, subsuming intangibles into goodwill only strengthens our belief that goodwill should be amortized (see Questions 1 and 3). Similar to goodwill, intangible assets represent a cost to an entity for implementing a business strategy. Therefore, both goodwill and intangibles should be recognized in profit and loss to more closely match the costs of a business combination with its incremental income.

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?

We do not believe there would be significant incremental cost to disclose the facts and circumstances related to impairment testing that did not lead to an impairment loss. However, these facts and circumstances can be subjective and likely are not predictive and, thus, may not be valuable to the financial statement user.

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

None to note

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 postacquisition? Please explain.

In the period of acquisition, we do not believe there would be significant incremental cost to provide information about the agreements underpinning material intangible items acquired. However, disclosing
RESPONSE TO QUESTIONS

updates to that information over time would be complex because of the judgment required to determine what changes require disclosure and gaining alignment with auditors. Changes could relate to a number of different items (e.g., financial impact, terms and conditions). Any type of disclosure requirement would have to provide specific guidance on what changes necessitate disclosure. Also, some agreements may contain sensitive information that a company may not want to disclose for competitive or confidential reasons. As far as benefits, more information generally is beneficial to investors. However, the subjectivity of the change disclosure will reduce its usefulness due to the lack of comparability between entities.

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.

None to note

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.

We support consistent financial reporting for all forms of business entities to improve comparability. For Ford, as a public entity, noncomparability makes an acquisition of a nonpublic entity more complex due to the requirement to identify intangible assets of an acquiree, when that acquiree may have purchased another business and elected to subsume all intangibles into goodwill.

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).

See Sections 1 and 2.

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? Please explain your response.

Ford is very supportive of efforts the FASB and the IASB have made to converge the accounting under their respective standards. Assuming there are differences related to amortization of goodwill and related intangibles, there is a risk that GAAP reporting entities could be viewed unfavorably compared to IFRS reporting entities when there are no substantive economic differences. GAAP reporting entities would recognize lower profits and fewer assets due to the amortization of the goodwill.

The lack of convergence between IFRS and U.S. GAAP adds additional complexities for multinational companies preparing financial statements under both standards. We highly encourage the FASB and IASB to work together to gain alignment between both standards.

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. Other Topics for Consideration

Our primary source of comparability is among all PBEs under GAAP since we are a U.S. GAAP SEC filer. However, Ford is a global public entity, so alignment of GAAP and IFRS is also key to minimizing financial reporting complexity.
Other Topics / Next Steps

28. Do you have any comments related to the Other Topics for Consideration Section or other general comments? Next Steps
   None to note

29. Would you be interested and able to participate in the roundtable?
   Potentially, if local