October 7, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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File Reference No. 2019-720
FASB Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Liberty Global plc (LG) appreciates the opportunity to comment on the FASB’s Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill (the ITC). LG is an international provider of video, broadband internet, fixed-line telephony and mobile communications services to residential customers and businesses in Europe.

Overall, we both applaud and support the FASB’s efforts to improve and simplify the accounting for certain identifiable intangible assets acquired in a business combination and the subsequent accounting for goodwill. We wish to provide comments on the subsequent accounting for goodwill.

Our comments consider our understanding of our financial statement users’ needs to make informed investment decisions. In our investors’ case, it’s principally the post-acquisition operational financial results of a combined business that are paramount, exclusive of, among certain other items, any goodwill impairments or potential amortization. It’s on this basis that we are supportive of pragmatism and simplicity with regard to the subsequent accounting for goodwill.

Our key comments on issues raised in the ITC are included in the following discussion.

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

As noted in the ITC, the basis for conclusions in Statement 141(R) describes several possible components of goodwill and attributes some components to “core goodwill.” While goodwill conceptually encapsulates a number of items (e.g. assembled workforce, etc.), we generally view goodwill as the expected synergies and other benefits associated with combining a newly acquired business in its entirety with our existing operations.

The expected synergies and other benefits implicit in goodwill that were acquired and recorded as goodwill at the acquisition date are realized through additional shareholder value creation in the form of enhanced or new revenue streams, cost synergies and ultimately increased net cash inflows of the combined businesses. However, over a period of time, the value of acquisition goodwill is subsumed into the business. Further, a company’s initial acquisition strategies and marketplace expectations evolve. As a result, it becomes increasingly difficult to evaluate where the specifically-acquired goodwill begins to diminish and the internally-generated goodwill commences. Accordingly, existing historical cost-based approach for accounting for goodwill as an indefinite-lived acquired asset is conceptually challenged. Amortizing goodwill is a practical and rational solution that financial statement users understood for many years under APB Opinion No. 17 and a solution that we support.
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.

No. While we acknowledge that the current goodwill impairment model may convey some benefits for some users, we believe that those benefits are limited and do not justify the cost and complexity of performing the annual goodwill impairment tests. Further as we note above, the nature of goodwill carried on a balance sheet conceptually and economically evolves over time.

The judgment required in annual impairment tests can be significant, subjective and may result in anomalous results that could be misleading to a company’s overall financial position and related enterprise value. Some of the sources of cost and complexity include:

a. The requirement to identify reporting units, whether at the time of acquisition or following a reorganization or disposition, and specifically assign goodwill to reporting units when an original acquisition plan itself may not disaggregate goodwill in such a manner (as decisions on acquisitions are often focused on the overall investment return on the combined business as a whole and not that of any one reporting unit and further, sharing of tangible and intangible assets across reporting units raises questions about how and where that value should be allocated), thus potentially resulting in arbitrary allocations and unnecessary evaluations and judgments at a later time.

b. The current goodwill impairment model often requires considerable management judgment and subjectivity in order to estimate the fair value of reporting units. For reporting units that are not publicly traded in an active market, the fair values are typically determined using an income-based approach (discounted cash flows) based on assumptions in a long-range business plan and, in some cases, the combination of an income-based approach and a market-based approach. The development of these cash flows, and the discount rate applied to the cash flows, is a process that involves significant time and costs due to the inherent judgmental and subjective elements of this assessment. That model can result in an impairment of a single reporting unit, but at the same time, does not consider a potential increase in the fair value of another reporting unit that may have been acquired as part of the same acquisition. We believe such a result may provide misleading information to financial statement users in the overall context of an acquisition, particularly when the required return on that investment was made on the combined business as a whole.

c. Additional subjectivity is often introduced when considering control premiums, assessing market multiples and when market dislocations exist.

d. The burdensome requirements of complying with and documenting the results of a company’s internal control over financial reporting on management’s inherently subjective valuation judgments and estimates.

We do not feel that the benefits of the information provided by the current goodwill impairment model justify the cost and complexity discussed above for a variety of reasons, primarily including:

a. Our investors and analysts are not focused on impairment charges themselves. Impairment charges receive little to no attention during our earning calls. When our company impaired goodwill in Q3 2017 as a result of a natural disaster, analysts remained focused on the operational financial results and metrics of the reporting unit and in particular our performance measures rather than the amount of the impairment or basis for determination of that amount. However, we do believe the so-called “early warning” disclosures related to a
reporting unit, a segment or the business overall are informative and useful to financial statement users and should be retained in the disclosure framework.

b. Including the reason above, impairment charges are excluded from our key performance measure as well as many other companies’ key performance indicators.

c. Goodwill impairments are typically infrequent.

d. The initial amount of goodwill recognized provides users of the financial statements with information about the excess of the purchase consideration over the amount of identifiable assets and liabilities. The economic investment in the acquired business, the return on invested capital and management’s capital allocation decisions can be, and often are, assessed via means other than potential future goodwill impairments and typically on a basis that combines all acquired reporting units.

**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).

We acknowledge the complexities and academic challenges in applying a single approach to amortizing goodwill and there are numerous pros and cons for each of the above alternatives. Given the nature of goodwill, and with clear disclosure about the amortization policy election, we support an approach that is simple and understandable which is to amortize goodwill over the weighted average useful life of all amortizable intangible assets acquired (we would explicitly exclude the depreciable life of long-lived assets as we believe their use, particularly in our business, is specific and varies from the nature of goodwill). We support a straight-line amortization approach to provide consistency and simplicity.

We believe a cap or default period would be acceptable if it were defined to be no more than 10 - 15 years. Acquisition integration and synergy realization typically commences immediately upon closing of an acquisition, thus the evolution of specifically acquired goodwill and the generation of internal goodwill is quickly obfuscated. Internally-generated goodwill that may not have been anticipated at the acquisition date, but nonetheless arises, is inextricably related to acquisition goodwill. Isolating when the acquisition date goodwill ends and the internally-generated goodwill begins is a nearly impossible exercise and the benefit of doing so is not what is important to financial statement users.

In our view, all other methods seem to bring unnecessary challenges that are riddled with judgements and estimates that will be time consuming and complex for a policy matter that does not impact our key performance measures and therefore are not of particular interest to the users of our financial statements.

**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.

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

We believe that goodwill should be amortized on the basis set forth above. Like all other amortizing or depreciating assets, a model to determine whether an impairment exists is needed and in our view should consider goodwill in its entirety, not just the allocated portion associated with one of potentially many reporting units in a business.

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We appreciate the opportunity to provide you with our views on the invitation to comment. If you have any questions regarding our comments, please contact me at 303-220-4212, Randy Lazzell, Global Vice President of Accounting and Reporting, at 303-220-6668, or Eric Van Deman, Vice President of Accounting Policy, at 303-784-4591.

Sincerely,

Jason Waldron
Senior Vice President and Chief Accounting Officer

cc Randy Lazzell, Global Vice President, Accounting and Reporting
Eric Van Deman, Vice President, Accounting Policy