October 7, 2019

File Reference No. 2019-720
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

Dear Technical Director,

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the above-referenced Invitation to Comment (ITC). The Committee is a technical committee of the FICPA and has reviewed and discussed the above-referenced ITC. The FICPA has more than 19,500 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee is comprised of 20 members, of whom 35% are from local or regional firms, 25% are from large multi-office firms, 20% are sole practitioners, 5% are from international firms, 5% are in education, and 10% in industry. In considering alternatives from the perspectives of public business entities (PBEs) and other entities, the Committee provides the following comments related to questions listed throughout the ITC:

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

   Deferring to the Master Glossary of the Codification, the Committee provides no specific characterizations. As with other feedback provided in this response (see e.g., question #14), the Committee believes that relevant experiences, including those related to the composition of goodwill, vary significantly across industries and are fluid over time. However, the Committee recognizes that “core goodwill” components, as referenced in FASB Statement No. 141(R), such as the fair value of “expected synergies and other benefits” resulting from the combination and that of the “going concern element,” often represent sizable shares across many industries. Generally, the Committee believes that subsuming assets into goodwill that otherwise meet existing recognition criteria under FASB ASC 805-20-25 may cloud the understanding of financial statement users regarding the significance and composition of goodwill. In certain industries, such changes may distort the manner in which users have historically conceptualized goodwill. (See the Committee’s responses to questions in Section 2 of the ITC for further detail concerning its opposition to extending the Private Company Alternative, among other positions.)
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 Committee provides no characterization of the overall costs and benefits of the current goodwill impairment model. However, the Committee considers the incremental costs and benefits of the current model relative to its preferred alternative in its response to question #3.

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.**

As a practical measure, the Committee narrows its response to the following:

An amortization-plus-impairment model in which impairment is tested on a “triggering event” basis and in which testing remains at the reporting unit level (the preferred alternative of the Committee) would lead to a more favorable cost-benefit outcome than the current model. (See the Committee’s response to question #12.)

The Committee recognizes the burdens of time and resources that arise from testing for impairment on annual basis, even after the introduction of the optional qualitative screen and the elimination of Step 2 of the testing requirements. Excluding consideration of testing frequency, the Committee believes that the narrow classes of modifications that would meaningfully address cost considerations, incidentally, would also strip impairment determinations of essential value. Unfortunately, further piecemeal simplifications and flexibility related to the nature of the testing, whether triggered or annually required, would produce diminishing returns in terms of cost savings. (See also the Committee’s response to question #10.)

Relative to its preferred alternative, the Committee further believes that the incremental benefits of the current approach are limited significantly by certain considerations:

1) Useful information conveyed by goodwill impairment is diminished inasmuch as charges represent the foreseen “consumption” of the goodwill’s benefits. Plainly, the absence of any systematic cost recovery can distort the significance of impairment measurements and contribute toward potential “misunderstanding,” as observed by the Board in the ITC. The Committee believes these effects considerably undermine the benefits of the current model.
2) Concerns of “delayed recognition” arising from a “triggering event” approach should not be afforded significant weight. Financial statement users often place limited reliance, incidentally, on the precise timing of recognized impairment charges. Rather, they frequently resort to contemporaneous indicators and other information sources bearing on the “external and internal economic factors” referenced in the ITC. That testing for impairment annually, instead of upon a “triggering event,” incrementally yields significant, decision-useful information seems unlikely. (In addition, such a suggestion implicitly assumes that material impairments result, in practice, at a meaningfully high percentage in the absence of “triggering events.” The Board should study this issue further before relying upon a “delayed recognition” rationale to support preserving annual testing.) However, alternatives to impairment recognition risk communicating misleading information about goodwill’s sources of subsequent measurement, and the Committee does not favor an amortization-only model.

It should be noted regarding goodwill impairment, generally, that there are inherent limitations in any financial reporting model to simultaneously
1) address the shortcomings raised by stakeholders and described in the ITC and 2) conform to fundamental and widely valued principles outlined in the FASB Statements of Financial Accounting Concepts. Even so, the Committee believes that goodwill impairment provides highly decision-useful information, not least the confirmatory value of underperforming reporting units linked to a prior acquisition. Even if lagging, impairment charges can reinforce that anticipated effects have materialized, with perhaps a higher degree of definitiveness than previously available. Additionally, if desirable, more timely information addressing relevant “external and internal economic factors” is suitable for enhanced disclosure requirements. (See the Committee’s responses to questions in Section 3 of the ITC.)

Finally, the Committee believes that entities’ cost in designing and implementing internal controls required to identify “triggering events,” assuming such controls are not otherwise in place, would be modest. In many instances, leveraging information systems and existing procedures, including those already employed to take advantage of the qualitative screen, would considerably limit the cost.
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).

The Committee acknowledges the relative merits of numerous approaches. Guided by the objective that "perfect should not become the enemy of good," it soberly approaches this question with an understanding that trade-offs are necessary. However, potential approaches by the Board should reflect the following two considerations:

1) Well-reasoned judgments related to the amortization period and method offer significant promise. For instance, they provide a means of anchoring goodwill’s carrying amount to meaningful “cost recovery” expectations, which vary dramatically depending on the circumstances of the acquisition. Consider the breadth of economic benefits, the diversity of rate of return assumptions, industry-specific considerations, and myriad other factors that fundamentally shape management’s goodwill assumptions. In many acquisitions, extensive information required to develop these factors is already produced by internal processes or by the engagement of external valuation specialists. Such readily accessible information may underlie management’s goodwill amortization judgments, thereby minimizing the incremental cost. On the other hand, broadly imposed simplifying assumptions that fail to capture this informational value risk unfaithful representation.
2) To be sure, certain entities lack cost-effective means of developing such information. In these instances, a uniformly fixed period may warrant consideration. However, restrictions should limit an entity’s ability to intentionally disregard information acquired by processes and analyses that were otherwise performed. For instance, an entity opting to apply the uniformly fixed period may be required to affirm and disclose that the information available, whether directly attributable to the acquisition or otherwise, fails to establish a reasonable basis to depart from such period. (This option would assume that if an objective basis for departure is readily apparent, it should be pursued. Note that the disclosure would further provide a measure of accountability to stakeholders, who may question the underlying justification, why certain processes were not performed, etc.) Based on its views regarding comparability, as described in its responses to questions in Section 3 of the ITC, the Committee prefers such a case-by-case evaluation to a broader alternative that is widely available to certain entities (e.g. private companies). Upon review, the Committee additionally believes that management’s assertions related to the uniformly fixed period would be amenable to a wide range of audit procedures.

Regarding an approach integrating these considerations, the Committee does not yet advocate one uniformly fixed period length over another. It believes that observations raised by some stakeholders, as described in the ITC, that “the rapidly changing business environment could render goodwill less valuable sooner” are well taken. However, the Committee is reluctant to draw generalizations from this observation regarding a requirement spanning numerous industries and extending into the foreseeable future. Of course, the Committee believes that a presumptive requirement to utilize period-of-benefit based judgments should be introduced.

Additionally, the Committee is concerned that a uniformly fixed amortization period (or even a “default period”) shorter than 10 years could excessively accelerate the “cost recovery” of goodwill in many instances and potentially deprive financial statement users of valuable information that should be conveyed through impairment charges. Finally, the Committee does not advocate a specified manner in which entities should be required to determine the period of benefit. While it defers to the Board’s expertise on this matter, the Committee generally supports granting flexibility to management in developing appropriate measures.

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. The Committee believes that these factors are inextricably linked for purposes of assessing the costs and benefits of alternative models. In addition, the Committee believes that declining to address them all, in the context of a comprehensive goodwill subsequent measurement update, would significantly increase the risk that
benefits sought from individual and isolated updates will fail to materialize. As noted in other responses, the value and operability of updates in this area are highly dependent on the nature and extent of other measures concurrently going into effect. For example, the value of the Committee's preferred alternative to annual impairment testing hinges on the ability of entities to adopt amortization methods and periods that are anchored, in some measure, to economic benefit assumptions. (See also the Committee's response to question #19.)

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.**

Generally, the Committee believes that equity investors would receive decision-useful information that would be justified on cost-benefit grounds. See further detail in the Committee’s response to question #4 regarding the benefits and costs.

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.**

The Committee believes that, in varying degrees, both a reduction in cost and in the usefulness of financial reporting information have arisen from these amendments. However, the Committee provides no characterization as to whether the amendments were justified on cost-benefit grounds.

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.**

The Committee believes that, in varying degrees, both a reduction in cost and in the usefulness of financial reporting information have arisen from these amendments. It further believes that the extent of cost savings has varied significantly among entities utilizing the qualitative screen. However, the Committee provides no characterization as to whether the amendments were justified on cost-benefit grounds.
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.**

The Committee vigorously supports the removal of this requirement based on its reasoning expressed in question #3.

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.**

The Committee opposes this option. Among other concerns, the Committee is troubled by the possibility raised by stakeholders that “goodwill of some reporting units [may] mask goodwill impairments in other reporting units,” as described in the ITC. In practice, the Committee believes this concern is well founded and that this option would risk distorting multiple financial statement assertions. It acknowledges that considerable cost savings would likely result from the option. However, the Committee believes that the loss of valuable information conveyed, particularly when reporting units engage in unique business activities managed by different teams, is too significant to justify on the basis of cost savings.

11. **What other changes to the impairment test could the Board consider? Please be as specific as possible.**

The Committee provides no comment to this 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.**

The support of the Committee is as follows:

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<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></td>
<td></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>
Explanations of the Committee supporting or opposing particular aspects of the models are included in responses to prior questions. (See e.g., responses to questions #3 and #4.)

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.**

The Committee generally provides no direct feedback to this question. However, it stresses the need to consider the extent to which incremental cost savings would be limited in certain circumstances. For instance, the Board should consider entities’ capabilities to leverage their otherwise existing information systems, internal processes, and even conclusions or work product obtained from specialists previously engaged in order to facilitate compliance with existing requirements.

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.**

The Committee believes that the benefits attached to such information vary significantly across industries and are fluid over time. Given the general trend observed in the ITC regarding purchase consideration, among other factors, the Committee does not believe there is justification to depart from existing requirements.

Such modification would risk pigeonholing certain industries into needlessly restrictive and undesirable reporting of goodwill. Furthermore, the absence of information concerning certain customer-related intangible assets may lead to subtle but significant effects on users’ understandings. Even seemingly unrelated analyses at a future time, such as quality of earnings assessments, could be affected indirectly by such a simplification and its potential impact on subsequent measurement and other requirements. Additionally, noncompete agreements are often highly individualized and may give rise to a significant diversity of rights and obligations. As a result, the subsequent measurement of an agreement (which may, incidentally, differ radically in duration from the period of benefit expected of the traditional goodwill) may be distorted.
15. How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

The Committee provides no direct commentary on the issue of reliability. However, the Committee believes that the framework for fair value measurements initially detailed in FASB Statement No. 157, Fair Value Measurements may provide a logical response to the concerns raised, assuming they warrant response. Paragraph C93 of the background information and basis for conclusions included the following:

Because at initial recognition many assets and liabilities are measured in the statement of financial position at amounts that approximate fair value (for example, in a business combination), the Board decided to limit the disclosures to fair value measurements in periods subsequent to initial recognition, whether the measurements are made on a recurring or nonrecurring basis.

If concerns regarding the reliability of measurement of certain identifiable intangible assets are widespread, the Board should consider whether existing frameworks are being fully utilized to meet users’ measurement needs. In particular, the Board should first consider the operability of modest, incremental updates to the applicability of fair value measurement disclosures at the acquisition date. Expanding the reach of certain fair value disclosures may obviate the need modify the recognition criteria.

However, the Committee does not opine about whether any such modifications are necessary or beneficial in the context of ASC 820 disclosures or otherwise.

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.

The Committee provides no comment to this question.
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 CRIs 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.

The Committee’s rankings from a cost-benefit perspective, based upon its reasoning detailed in responses to questions in Section 1 and Section 2 of the ITC, are as follows:

1) Approach 4  
2) Approach 1  
3) Approach 2  
4) Approach 3

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.

The Committee recognizes the conceptual appeal of this approach. In practice, though, the Committee believes such a standard would lead to an undesirable diversity in assumptions, justifications, and confusion, despite the ostensible simplicity of the criterion.

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.

The Committee agrees. Needless to say, the financial statement assertions affected by these recognition and subsequent measurement alternatives are closely related. Applying simplifying assumptions to the former without consideration of the latter could, for instance, significantly distort the subsequent “cost recovery” of the items subsumed, particularly when they would be characterized as “finite lived” under existing standards. In this regard, see responses to prior questions related to the limitations of goodwill’s impairment-only model; in subsuming additional items, the aggregate value of goodwill would increase under such circumstances, which would magnify the undesirable consequences. Of course, the unintended effects of such distortions would potentially be felt throughout numerous classes of transactions and account balances, as well as certain aspects of presentation and disclosure.
Unfortunately, the Committee is not aware of cost-effective, operable solutions to address these concerns. Therefore, it believes that subsuming additional items into goodwill would necessitate the amortization of goodwill.

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?**

Depending on the approach established for subsequent measurement, among other factors, the Committee believes such disclosures could provide cost-effective, decision-useful information. The Committee recommends that further study and analysis be performed, though. For instance, potential ramifications of, and users’ reliance on, the “sources outside of the financial statements” referenced in the ITC should be explored.

The Committee believes that any disclosure requirements should be narrowly tailored to limit disclosures to information most relevant and informative about the facts and circumstances. Such requirements should also minimize reliance on “future information.” Rather, their aim should be to provide meaningful then-existing information and to permit users to draw reasonable inferences. However, the Board should consider the inclusion of cautionary statements emphasizing the uncertainty involved. In particular, such language could address users’ inferences concerning the occurrence, nature, or magnitude of future impairment.

Ultimately, given the inherent limitations of goodwill impairment, which often provides the "lagging indicator" effect referenced in the ITC, disclosure of circumstances leading to the testing might address the perceived lack of predictive value.

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

The Committee believes the appropriateness of such disclosures is dependent on the nature of any proposals approved that address the subsequent measurement of goodwill. However, the Committee believes that many of the factors and assumptions underlying the alternatives described in responses to question #3 and question #4 are amenable to disclosure and would prove operable.
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.

The Committee believes that this information could meaningfully inform financial statement users’ decision-making. Often, the complexities of many such agreements involve consequential rights, obligations, opportunities, and risks that are not discerned through balance sheet measurement and presentation or through disclosures under existing requirements.

As in the case of additional goodwill impairment disclosures, the Committee recommends that further study and analysis be performed, though. In doing so, the Board should review, among other areas, concerns surrounding the disclosure of sensitive information. Additionally, if operating performance measures are incorporated, the Board should consider granting discretion, within reasonable limits, to entities in determining measures based upon industry-specific and contract-specific considerations. This recommendation assumes heightened importance when addressing post-acquisition year disclosures. If the Board ultimately determines that disclosing quantitative information would become impracticable or unreliable, the Board should consider whether disclosures of qualitative information, in isolation, are operable.

Such disclosures may additionally contribute toward changing attitudes and perceptions of financial statement users regarding such material intangible items, as users increasingly recognize various (agreement-based) differentiating characteristics. Finally, the Committee believes that the incremental costs involved, at least in the period of acquisition, would be modest and justifiable. Furthermore, the costs for many entities would be significantly limited by information acquired and developed through means independent of such disclosures. Nonetheless, the Committee believes that any disclosure requirements should be narrowly tailored to limit the disclosures to the most relevant and informative aspects of the agreements. Excessive information may, in the Committee’s belief, become counterproductive to users’ understanding.

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.

The Committee provides no comment to this question but refers the Board to its responses to questions #20 through #22.
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.

Absent comparability, the Committee foresees obstacles to users’ understanding arising from issues referenced in the ITC. Those related to “nonpublic entities that plan to become a PBE or are acquired by a PBE” and those concerning particular industries in which a mix of private companies, PBEs, and not-for-profit entities operate, in particular, could significantly reduce the usefulness of financial reporting information. Additionally, the Committee believes that most users, on average, are less literate in financial reporting information associated with goodwill and separately recognized intangible assets than they are in most other areas. If true, this factor increases the potential for misunderstanding and confusion and elevates the importance of comparability among the classes of entities referenced in the question.

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).

The Committee provides no further comment regarding this subject matter. However, see responses to questions in Section 1 and Section 2 of the ITC.

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.

The Committee believes that the principal rationales historically offered in support of convergence are particularly compelling in these areas. Intricacies of rights, obligations, forecasting assumptions, risks, growth opportunities, jurisdictional implications, and other aspects of intangible assets will likely command heightened attention in future valuations. Absent comparability, global financial statement users may draw fundamentally different understandings regarding entities’ compositions of intangible assets.
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.

   The Committee provides no comment as to the relative importance of these sources.

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

   The Committee provides no comment to this question.

29. Would you be interested and able to participate in the roundtable?

   Yes.

Respectfully submitted,

Trey Bruce, Esq., CFE, CPA, LL.M

Committee member coordinating this response:

Allan Franklin, CFE, CPA
Chair, FICPA Accounting Principles and Auditing Standards Committee