October 11, 2019

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-720

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by the MOCPA Board of Directors to submit comments on matters of interest to the society’s membership. The views expressed in this letter have not been approved by the MOCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MOCPA.

We believe that Section 1 of the Invitation to Comment is the most critical at this stage. Therefore, we primarily focused the discussions amongst our group on Section 1. We included in the attached detailed responses to Section 1 reflecting the results of those discussions, and limited responses for Sections 2 through 4.

The members of our group had diverse views about the potential for a broader return of amortization of goodwill. We believe that an impairment model is the most conceptually accurate model to apply to goodwill. We believe this for two primary reasons: the valuation techniques that are used to derive the fair value of identifiable assets and the resulting nature of the residual goodwill, and the qualitative nature of goodwill which includes expected future benefits from the indefinite combination of the entities.

Where our group differed was the cost-benefit considerations. An impairment model would in theory be able to provide decision-useful information to financial statement users by identifying situations where the expected benefits are not achieved, but as currently practiced it may not be effectively providing this benefit. At the same time however, the impairment-only model is more costly than amortization. In contrast, we believe an amortization model has the ability to provide little or no decision-useful information to financial statement users. In fact, we find that when amortization is used, it is often ignored or reversed out for analysis of financial performance and comparison between entities. However, amortization is clearly less costly than the existing impairment model.

Those that support the impairment model do so on the basis of the conceptual underpinnings and the expectation that it can be done in a way that balances decision-useful information and cost. Those that support an amortization model do so based on
cost. The exception to this is that our group generally supports the retention of the accounting alternative available to private companies and not-for-profit entities. Our support of the alternative is primarily based on the expectation that the financial statement users of those entities are able to get more useful information through their interactions with management than, practically speaking, could ever be accomplished in the financial statements through accounting standards.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA
TIG Chairman

Robert A. Singer, CPA
TIG Member

Jeffrey Antrainer, CPA
TIG Member
Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

Response: We believe that the definition of goodwill as stated in the FASB Master Glossary as “an asset representing the future economic benefits acquired in a business combination arising from other assets acquired in a business combination” … etc. is an appropriate characterization. In our view, this definition encapsulates the different views on what goodwill represents. Firms acquire other entities because of a belief that an acquisition will produce certain synergies that make the combined entity more valuable than the economic values of the separate net assets of the individual entities. Moreover, the benefits inuring to the combined entity should allow it to earn a return in excess of the returns of its individual assets. Given that some of the assets so acquired are specifically identifiable, some that are not so identifiable, and some whose interactions among other assets produce benefits that are immeasurable, we believe that SFAS 141’s enumeration of the various components and their attribution to what it terms core goodwill provides context. The contractual-legal criteria and separability criteria for isolating specific intangibles provides the necessary implementation guidance.

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.

Response: The views of our group’s membership are mixed on whether the benefits of the existing model outweigh the costs. We are hopeful that it will be found that Update 2017-04 which eliminates the step two of the impairment test will be a significant reduction in the cost without a significant decrease in the benefit resulting in an improvement in the cost benefit analysis under the impairment-only model. We generally do believe that the guidance provided in SFAS 142 not to amortize goodwill over some arbitrary period, but rather to treat it as an indefinite asset until conditions suggest otherwise is theoretically sound. Perhaps, additional cost savings can be found by re-examining the appropriate unit used for testing purposes (i.e., reporting unit, operating segment, or entity level).

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.

Response: We believe that acquisitions are made with the expectation that the benefits whether they be due to synergistic effects of combining the entities, to specialized technology, intellectual capital and particular intangibles of the acquired entity will continue over some indefinite period. Despite this believe, the views of our group’s membership are mixed. Generally, in the context of public companies, we are concerned that abandoning the impairment-only model will negatively impact the financial information available to financial statement users. Although, we find some truth in the criticisms that the impairment-only model as practiced has been a lagging indicator, we do believe
that investors in public companies have such limited access to management that the insight gained from the impairment-only model, including managements past track record of maintaining the value of goodwill, are beneficial. For this reason, we believe that it is likely the benefits outweigh the costs for public companies. We expect that the elimination of the second step of the impairment model will reduce costs and improve the results of a cost-benefit analysis.

On the other hand, for private companies, where the number of investors evaluating the financial information is lower, and they have access to management, we generally believe that the cost-benefit analysis is different. The users of most private company financial statements have better information then is available through the results of the impairment test to evaluate management’s success with an acquired business. Therefore, for the impairment-only model, the benefits accumulated collectively by financial statement users of private companies are reduced.

Considering these observations, and the differing views within our group. If the project continues, we believe significant additional research and out-reach on this topic is necessary. Our general considerations are as follows:

- The argument cited in the exposure draft justifying a return to goodwill amortization on the basis of the matching concept is inconsistent with a movement away from the historical cost model toward a fair value model that places greater emphasis on the fundamental quality of relevance with its emphasis on measuring both realized as well as unrealized changes in assets and liabilities resulting in an improved measure of economic income. We believe that cost is the only basis to support a return to amortization.
- Based on observations of private companies that amortize goodwill and the amortization of goodwill prior to the introduction of the impairment-only model, we believe that amortization of goodwill does not provide useful information to financial statement users, especially when the amortization period is arbitrary.
- The inability of many financial statement users to get additional information related to the success of acquisitions from the management of public companies indicates to us that amortization, especially with an arbitrary amortization period, would not be appropriate for public companies.
- Considering the recent reintroduction of amortization of goodwill for private companies and not-for-profit entities we do not support, at this time, the removal of the accounting alternative for the amortization of goodwill for private companies and not-for-profit entities.
- We believe goodwill should be amortized if customer related intangible assets, or other significant intangible assets, currently recognized separately are subsumed into goodwill.
- We support additional research that would investigate new or novel approaches to provide information to financial statement users. Although we have concerns about the costs of more detailed disclosures, we believe it is worthwhile to further research whether providing detailed disclosures
of expectations and performance at an appropriate unit level for a period of
time subsequent to an acquisition would enable financial statement users
to obtain benefit from the existing (or a modified) impairment model that
would outweigh the costs. Alternatively, perhaps there are other ways to
simplify the impairment model or changes that would provide more timely
information to financial statement users.

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).

Response:

Without additional research, if the Board decided to amortize goodwill, we would
generally be supportive of g., Management’s reasonable estimate. This method of
selecting an amortization period would seem to be the most appropriate as it
provides at least a minimal amount of information to financial statement users in
the form of the period of time benefits of an acquisition are expected to accrue to
the entity. However, we believe that from a valuation perspective that conceptually
for most, if not all, acquisitions goodwill would arise from long-term cash flows and
terminal value that could not be allocated to separately recognized assets.
Therefore, either guidance would be necessary to instruct which considerations
are permitted to be used by management and which considerations would be
excluded to avoid indefinite lived goodwill by some entities on a terminal value
basis, or this approach would need to be linked to a cap or a maximum.

We would also continue to support d., Justification of an alternative amortization
period other than a default period for private companies and not-for-profit entities.
We do so on the basis of a desire to minimize costs related to change of a recently
enacted standard, cost of ongoing preparation and audit, and most importantly that
users of these financial statements have access to management to obtain
information that is useful to them. Based on observations of private companies
when considering public companies, we believe this approach will, in practice,
result in the use of a default period and does not provide decision-useful
information to the financial statement users.

We generally do not support the following approaches for theoretical or practical
reasons as described:

b. A cap (or maximum on the amortization period) – As discussed above, a
cap would be most appropriate in connection with g. A cap on its own could
be a viable solution depending on how it was implemented, but without
guidance on how to reasonably estimate the life it would be difficult to maintain comparability across companies.

f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired – This approach may be reasonable if structured appropriately, or linked to a floor. It may be reasonable to amortize goodwill based on the average life of assets acquired for an acquisition when the majority of fair value consists of property, plant, and equipment and intangible assets, but not reasonable for an acquisition that consists primarily of working capital, without significant separable intangible assets. We think it would be difficult to make this approach operational.

e. Amortization based on the useful life of the primary identifiable asset acquired – This approach may be reasonable if structured appropriately, or linked to a floor. It may be reasonable to amortize goodwill based on the life of a tradename, but it would not be reasonable to amortize goodwill based on accounts receivable. We think it would be difficult to make this approach operational.

c. A floor (or minimum) on the amortization period – A floor would only be reasonable if linked with items e. and f. as indicated. Otherwise, considering a floor by itself, we believe it would not be appropriate. If an acquisition was designed to capture short-term benefits that are expected to expire, it would be appropriate to amortize goodwill over a short period.

a. A default period – We do not believe a default period provides useful information to financial statement users. The only basis we could find to support a default period is to minimize all costs related to accounting for goodwill. When considering this it seems that if the objective is simply to minimize all costs then it would be equally valid to not recognize goodwill in an acquisition and instead either expense the excess immediately or treat it as a charge to equity. In fact, a model of not recognizing goodwill may have the advantage of treating acquired goodwill consistent with any comparable internally generated goodwill that could exist in a business. We would generally oppose a default period if used by public companies.

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.

Response: We view the two models as unrelated and disparate. Thus, we view the question of amortization method and/or period as moot when choosing between the impairment-only and amortization models.

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.
Response: The merits of whether investors receive decision-useful information when the entity justifies an amortization period other than some arbitrary default period beg the question of whether an amortization model provides any decision-useful information. There is no question that setting any period over which to amortize goodwill is much easier and less costly than recording an impairment based on an evaluation of conditions that suggest a deterioration under the current model. However, we believe that benefit associated with a careful and deliberate analysis of the conditions suggesting such deterioration thereby justifying a write down of goodwill provides the most useful information. We believe the only justification to adopt an amortization model is on a basis of cost. The only decision-useful information we foresee arising from an amortization model with a triggering event impairment test is, in the year of an acquisition, information about management’s expectation of the period of benefit from the acquisition as evidenced by the use of judgment to select an amortization period.

We note that SFAS 142 was created following the controversy over SFAS 141’s elimination of the pooling of interest and the required use of the purchase method. Many entities were dismayed at the prospect of having to record and amortize goodwill under the previous APB 17 guidance. The argument that amortization would address the criticism that impairment is a lagging indicator of an erosion that has already occurred and therefore, provides untimely, less relevant information sounds little more than a chicken-egg paradox. An entity’s management can only observe that adverse conditions occurring sometime subsequent to an acquisition have occurred and render a judgment whether a write-down is justified.

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.

Response: We believe that the amendments in Update 2017-04 eliminating step 2 of the goodwill impairment test reduce the cost of the impairment test. We believe the primary usefulness of the impairment test is the indicator that impairment has occurred, and therefore the reduction in precision (which is based on highly subjective estimates) did not significantly reduce the benefit.

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.

Response: We believe that the qualitative screen reduced the cost to perform the goodwill impairment test and that it did not reduce the usefulness of financial statements.
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.

Response: Our group has diverse views, we generally support the impairment model when the users of the financial statement have limited access to obtain information necessary to assess the performance of an acquisition. We believe additional research to develop and test alternative models and disclosure of additional information may aid in arriving at an improved model.

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.

Response: We would support additional research into the impact of testing goodwill impairment at the entity level. Some members of our group are concerned that by testing impairment at the entity level the impairment test will cease to provide useful information about the expected benefits of an acquisition. On the other hand, testing at the entity level would reduce cost, and in many situations still provide some relevant information.

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

Response: The Board should consider changing the level of impairment testing for PBEs to the operating segment level in order to be consistent with the requirements for segment reporting.

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>Impairment Only</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>Yes</td>
<td>Yes</td>
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<td>Yes</td>
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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.

Response: The cost savings that would be achieved if certain recognized intangible assets were subsumed into goodwill would be modest. These items are often immaterial and, if subsuming them into goodwill, little or no decision-useful information would be lost.

We note that some private companies, particularly in lower value acquisitions, have concluded that under the accounting alternative the intangible assets not subsumed into goodwill, such as tradename, are qualitatively immaterial due to the lack of market share or local market nature of the right. Therefore, these entities avoid in the entirety in accounting for an acquisition the use of detailed projections, sophisticated valuations models geared towards business enterprise value, and the valuation of acquired intangible assets. These entities see significant cost savings relative to the size of the acquisition.

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.

Response: We did not have the resources to perform an analysis.

15. How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?
Response: These items are often difficult to objectively measure, we believe that two different management teams evaluating the same acquisition would often arrive at significantly different values.

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.

Response: We have noted that in some industries licenses of intellectual property, such as trademarks or patents, 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. 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.

Response: Our group had diverse views regarding the existing guidance, but we generally favor approaches 1 and 4, and do not favor approaches 2 and 3. Approach 3 was clearly our least preferred approach.

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.

Response: We believe guidance similar to the existing guidance would be necessary in order to make an overarching principle operable.

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.

Response: We do not agree that approaches 1-3 would necessitate the assumption of material additional items into goodwill; however, we agree that there is a point at which the significance of the items subsumed into goodwill necessitates amortization of goodwill. We note that under existing guidance a workforce, which could be material, is by rule subsumed into goodwill, but that has not previously been considered significant enough to require 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?

Response: We believe the costs and benefits of such disclosure would have to be analyzed based on different types of disclosures. Specifically focusing on the amount of detail and nature of the disclosure. We were not able to conduct such research and therefore cannot provide a detailed assessment. However, we believe considerations would be the cost of preparation, as well as the potential competitive and economic costs that could be imposed on an entity. While we believe these disclosures could be a real improvement in the decision-usefulness of information in the financial statements, we fear that any disclosure related to facts and circumstances that would be insightful to financial statement users (i.e. not result in near boilerplate disclosure) would be costly.

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

Response: We are supportive of the Board conducting research and outreach regarding potential disclosures, but do not have any specific recommendations at this time.

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.

Response: We believe the disclosures may provide decision-useful information in situations where financial statement users lack access to management; however, we also believe they will be costly.

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. 34 Section 4: Comparability and Scope

Response: We have no other suggested changes to the current disclosure requirements for goodwill or intangible items.

Section 4: Comparability and Scope

24. Under current GAAP, to what extent does no comparability 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.
Response: Comparability between PBEs is essential; however, the needs of the users of private business and not-for-profit entities are often different. As a result, comparability between PBEs, private business and not-for-profit entities is less critical.

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).

Response: We believe the option to elect goodwill amortization will reduce comparability. However, we believe reducing the frequency of impairment testing to the occurrence of a triggering event may be an effective way to reduce cost without reducing decision-useful information.

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.

Response: Consistency between GAAP and IFRS regarding the accounting for goodwill and certain other intangible assets amongst PBE’s is critical in order to enhance and maintain the quality and comparability of financial reporting. The enhancement and maintenance of that comparability is important for the investment community and well-functioning markets.

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.

Response: As indicated in our responses to questions 24 and 27, comparability between all PBEs including those reporting under GAAP as well as other standards, is critical to the quality of financial reporting. However, the needs of the users of private business and not-for-profit entities are often different. As a result, comparability between PBEs, private business and not-for-profit entities is less critical.

Section 4: Other Topics for Consideration

28. Do you have any comments related to the Other Topics for Consideration Section or other general comments?
Response: The Board should not remove the private company accounting alternative for goodwill issued in Accounting Standard Updates 2014-02 and 2014-18 as we feel the alternative has reduced cost and complexity without significantly reducing the information available to financial statement users due to their ability to [usually] obtain information directly from management.

In addition, the Board should consider permitting recognition impairment reversals for conceptual consistency. The reversal of impairment is generally required in IASB standards for assets other than goodwill.

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

Response: We would be interested in participating in a roundtable.