Oct. 16, 2019

Financial Accounting Standards Board
Technical Director – File Reference No. 2019-720
401 Merritt 7 – PO Box 5116
Norwalk, CT 06856-5116

Re: Identifiable Intangible Assets and Subsequent Accounting for Goodwill; File Reference No. 2019-720

Dear Board Members and Technical Staff:

We appreciate the opportunity provided by the Financial Accounting Standards Board (“FASB”) to comment on the above referenced topic.

Ridgewood Investments is registered as an investment adviser with the Securities and Exchanges Commission. We invest in equity securities of public companies and, as such, we rely in part on information in their financial statements to make investment decisions. We have been following the FASB’s deliberations on the treatment of goodwill and other intangible assets with interest and—to the extent standard setters are contemplating fundamental changes such as amortization of goodwill—increasing concern, as we believe the current approach provides valuable benefits to investors in public securities.

For those who would suggest that impairment of goodwill is of little consequence in the real world, we would point to the 14% one-day drop in the share price of Kraft Heinz early this year when the company announced a $15 billion write down of goodwill as evidence that investors care very much about it indeed.

Investors ultimately bear the cost of impairment testing
We are well aware that there is a material cost to reporting entities associated with the current approach of carrying intangible assets on the balance sheet and periodically subjecting them to impairment testing. But we note that the cost is ultimately born by shareholders such as ourselves and we believe it is a worthwhile expenditure because the approach provides equity investors (and lenders, for that matter) with a great deal of valuable information. We also would argue that in many cases it accelerates information dissemination.

Information gained from the current approach
One of the more difficult tasks investors face in assessing a company is evaluating the quality of its management team. Their initial valuation and stewardship of the goodwill acquired through acquisitions is one of the most useful barometers of their strategic judgment (did they overpay?) and
their management skill (did they fail to execute and realize the synergies they predicted when they announced the deal?).

The information shareholders and creditors glean when companies are periodically required to assess and disclose the value of the goodwill they are carrying on their balance sheets would become much less clear if companies are writing its value down based on an arbitrary amortization schedule and reflecting it as a single line on their financial statement. Under the current treatment, issuers typically provide fulsome and helpful explanations of annual impairment tests in the discussion sections and/or footnotes of their financial statements.

**Impact on the pace of information disclosure**

Not only does the impairment testing requirement lead to the annual promulgation of rich information for investors, but in some cases we believe it acts to accelerate the flow of information as companies seek to “get out ahead” of impairment surprises by publicly acknowledging goodwill-related challenges to market participants well before the annual testing takes place.

**Why amortization is a poor fit**

Finally, it should also be noted that there is broad consensus that goodwill isn’t a wasting asset—rather, its value fluctuates—making it a poor fit for amortization. While we believe amortization would “muddy the waters” in the event goodwill’s value was going down, we think it would be even more confusing for investors in cases where the intrinsic value of goodwill is going up, even as amortization artificially pulls its valuation in the opposite direction. The addition of a non-GAAP reconciling line item will do little to help investors determine value.

**Conclusion**

No doubt many companies would be delighted to dispense with the annual impairment testing exercise. It’s expensive and a hassle, management teams will argue. But we would submit that, for shareholders and bondholders, impairment testing is an invaluable tool for tracking management’s performance and for holding management teams accountable for their strategic decisions.

For these reasons, we do not support a major shift in approaches toward the artificial and potentially misleading amortization of goodwill assets.

Thank you for considering our concerns.

Sincerely,

**Ridgewood Investments LLC**

Ridgewood Investments LLC