November 12, 2019

Mr. Shayne Kuhaneck  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  

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

Submitted via email to director@fasb.org  

Affiliated Managers Group, Inc. ("AMG") appreciates the opportunity to respond to the invitation to comment on the Financial Accounting Standards Board's (the "Board") project on certain identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill (the "Invitation"). AMG is a global asset management company with equity investments in leading boutique investment management firms, which we refer to as our "Affiliates" and, as such, we are both a preparer and user of financial statements. Through our Affiliates, we provide a comprehensive and diverse range of active, return-oriented strategies designed to assist institutional, retail and high net worth clients worldwide in achieving their investment objectives. As of September 30, 2019, AMG’s aggregate assets under management were approximately $750 billion in more than 500 investment products across a broad range of active, return-oriented strategies.

AMG is committed to providing high-quality financial reporting and continually improving the financial information disclosed about our investments in Affiliates. Inherently, the initial recognition and subsequent accounting for identifiable intangible assets and goodwill requires management’s judgment, as every investment is unique. Almost all of the identifiable intangible assets in any of AMG’s equity investments are composed of definite and indefinite-lived acquired client relationships; under current GAAP, the former are amortizable and the latter are not. Users of our financial statements find the distinction between amortizable and non-amortizable acquired client relationships difficult to understand and would expect all of the identifiable intangible assets to be amortizable or, similar to goodwill, none. Given the cost and complexities regarding the initial and ongoing measurement of these assets, AMG generally supports the Board’s efforts to reduce financial reporting costs when the results do not justify the effort and expense.

While AMG supports improvements regarding the initial and subsequent accounting for intangible assets and goodwill, we believe the Board should revisit these topics more broadly in a review of its accounting model for business combinations. In the interim, we hope that our proposals below will assist the Board in its goal of simplification.
Intangible Assets and Goodwill

Goodwill, as currently defined in ASC 350-20-20, represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. AMG agrees with the concept of goodwill as currently defined; however, we believe that the current impairment model, which requires burdensome monitoring and measurement of goodwill subsequent to the acquisition date, should be revised. More specifically, the significant effort involved to perform annual goodwill impairment testing generates limited benefit to users of financial statements, as the assessment can only result in a reduction of goodwill, and that decrease is generally reported in a single reporting period, even though the diminution in value often takes place over time. Furthermore, inconsistencies currently exist in the guidance for the subsequent accounting for intangible assets; whereby certain intangible assets have determinable useful lives and are amortized while other intangible assets are considered to have indefinite useful lives and are not amortized. Similar to goodwill, the non-amortizable assets are also assessed for impairment, and, if impaired, result in a similar reduction in a single reporting period, even though the diminution in value often takes place over time. We believe that the distinction between definite and indefinite-lived intangible assets does not provide investors with meaningful information regarding how the value of these assets change over time.

AMG believes that the amortization and impairment approach described below would provide consistency and support the Board's goal of simplifying the subsequent accounting for intangible assets and goodwill, whether or not intangible assets are subsumed into goodwill.

Historical Cost Model

The fair value of most businesses is determined or supported using a discounted cash flow model, which typically includes a terminal value that represents the present value expected to be generated from cash flows into perpetuity. Discount factors applied in these types of models generally result in a de minimis present value for future cash flows after 10 or 20 years. Therefore, as implied in the acquisition date fair value, the acquired business (including any intangible assets and goodwill) has a finite economic life, in today's dollars. Companies are required to carry intangible assets and goodwill at historical cost, which is equivalent to the fair value of the investment on the investment date, but over time, that historical cost will inherently fail to reflect the future economic benefits that were initially recorded at the date of acquisition. For these reasons, AMG believes the distinction between definite-lived assets, indefinite-lived assets and goodwill becomes increasingly difficult to support over time and, therefore, AMG supports amortizing all assets, including goodwill.

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1 See the Invitation, Section 1: Whether to Change the Subsequent Accounting for Goodwill, Question number 2
2 See the Invitation, Purpose and Background, asking specifically “Your insight is requested at this time to gauge...Whether and how to proceed with simplifications and/or improvements to these topics”
Amortization Period

AMG believes that an alternative amortization model, where all intangible assets and goodwill are amortized consistent with the economic life implied by the initial valuation, would simplify the subsequent accounting and reduce costs and the time incurred by registrants in the preparation of their financial statements and, at the same time, would provide information that is more useful to users of financial statements. AMG suggests that assets, under a historical cost model, should always be amortized over the period of economic benefit originally estimated at the acquisition date.

Due to the numerous types of businesses that exist, AMG does not believe that the Board should require the use of a “default” amortization period. Rather, we would be supportive of using an amortization period generally consistent with the valuation model used initially. However, the Board may also consider further simplifying this guidance by implementing a default amortization period somewhere in the range of between 10 and 20 years, but providing management the ability to rebut that presumption if they can support a longer or shorter period based on the valuation model. This would provide cost savings and efficiencies for registrants, as the valuation of assets recognized in a business combination are based on discounted cash flow models that are fundamental to existing guidance under ASC 805, already performed by the acquirer and reviewed by auditors. Therefore, the work required to determine an initial amortization period would already be supported by the valuation model and require little or no additional cost or effort by registrants.

Impairment Model

Consistent with the Board’s simplification efforts, AMG believes that instead of performing annual impairment testing, the remaining useful lives of intangible assets and goodwill should be reviewed annually and, if necessary, adjusted on a prospective basis to correspond with their estimated remaining useful lives as determined in a supplemental qualitative or quantitative analysis. Replacing the current annual test to determine whether an impairment exists with a simplified periodic assessment that considers the remaining useful life of an asset to be either consistent with or shorter than originally expected would further simplify the subsequent accounting for intangible assets and goodwill. Depending on the results of the periodic test, the useful life of the intangible asset and/or goodwill would be prospectively adjusted causing the remaining historical cost to be amortized over the updated period of expected economic benefit.

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3 See the Invitation, Section 1 – Approach 1: Goodwill Amortization Period, Question number 4
4 See the Invitation, Section 1 – Approach 2: Modifying the Goodwill Impairment Test, Question number 11
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We appreciate the opportunity to provide our views on these matters, and are available to address any questions or to provide any additional information.

Sincerely,

[Signature]

Aaron M. Galis
Senior Vice President, Chief Accounting Officer

cc: Thomas M. Wojcik, Chief Financial Officer
    Louis T. Somma, Vice President, Senior Counsel