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January 29, 2007

Ms. Suzanne Bielstein
Director — Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

1500-200

LETTER OF COMMENT NO. 9

File Reference No. 1500-200 — ***Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*** **— an amendment of FASB Statement No. 142**

Dear Ms. Bielstein:

Deloitte & Touche LLP is pleased to comment on the Exposure Draft of the proposed Statement of Financial Accounting Standards, *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition* — an amendment of FASB Statement No. 142 (the "Exposure Draft" or the "proposed Statement").

While we generally agree with the accounting requirements for intangible assets outlined in the Exposure Draft, we believe that introducing methods for goodwill impairment evaluation other than those prescribed in FASB Statement No. 142, *Goodwill and Other Intangible Assets,* will impair comparability both within an entity and among different entities. In addition, requiring not-for-profit organizations (NPOs) to apply FASB Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information*, for the first time could be costly and overly complex. Our views on these issues and responses to each of the questions posed in the Exposure Draft are included as an Appendix to this letter.

Deloitte & Touche LLP appreciates the opportunity to comment on the Exposure Draft. If you have any questions concerning our comments, please contact Stuart Moss at (203) 761-3042.
Yours truly,

Deloitte & Touche LLP

cc: Mike Fritz

Deloitte & Touche LLP
Appendix
Responses to Notice for Recipients

Accounting for Identifiable Intangible Assets

> *Question 1—Are the accounting requirements for intangible assets appropriate, understandable, and sufficient for identifiable intangible assets acquired by a not-for-profit organization in a merger or acquisition? If not, why and what alternative do you suggest?*

Yes.

Accounting for Goodwill

> *Question 2—Is the departure from the goodwill impairment evaluation in Statement 142 appropriate for reporting units that are primarily supported by contributions and returns on investments? If not, why and how should goodwill be evaluated for impairment?*

A new goodwill impairment methodology for NPOs fails to produce financial information that is more relevant than does the Statement 142 impairment test. We believe that the FASB should, when possible, minimize differences between the final Statement and Statement 142. Creating different impairment methods on the basis of the nature of the support for the reporting unit is likely to decrease comparability both within an entity and among different entities.

We do recognize, however, the additional cost and complexity involved in using the Statement 142 impairment methodology to evaluate reporting units that are primarily supported by investment returns and contributions. We would thus support a departure from the Statement 142 impairment test if the FASB's research indicated that the benefits of applying the Statement 142 goodwill impairment test to these reporting units did not exceed the costs.

> *Question 3—Are the criteria for determining which impairment evaluation to apply appropriate, understandable, and sufficient? If not, why and how should the guidance be modified or clarified?*

No. The currently drafted guidance on determining the primary support of a reporting unit is highly subjective and NPOs with similar reporting units could reach different conclusions regarding the nature of the support. For example, two NPOs might receive support from contributions and investment returns in amounts almost equal to that received from other resources. The primary support could change each period on the basis of expected investment returns. Therefore, the determination of primary support might be based solely on expected investment returns, which could differ among entities.

In addition, it is unclear how single or multiple one-time endowments or grants would be factored into the evaluation as of the acquisition date. While the example in paragraph A8 indicates that it would be appropriate to include the one-time nature of the contributions in assessing whether changes in the nature of support have occurred, it is unclear whether this same evaluation can be performed at the acquisition date. We recommend that the final Statement clarify the Board's intent in this regard.

Finally, we understand that there may be diversity in how NPOs report government grants: some may report them as exchange transactions, while others may report them as contributions. Since the manner in which these amounts are reported will have a direct impact on the assessment of a reporting unit's primary support, we recommend that the final Statement clarify how such grants should be considered.

Qualitative Evaluation

> *Question 4—Is the proposed qualitative evaluation operational for the intended reporting units and will it adequately identify an impairment of goodwill in the correct period? If not, why and how should the guidance be modified or what alternative evaluation would capture an impairment of goodwill on a more timely basis?*

No. The qualitative evaluation described in the Exposure Draft is too subjective and will lead to diversity in practice. Essentially, the provisions allow an entity to create its own triggering events on the basis of its specific facts and circumstances. While we acknowledge that it would be difficult, if not impossible, to identify triggering events that cover all instances, the proposed model will only produce relevant financial information if more robust triggers are identified that can be applied consistently. Perhaps the trigger events can be modeled after those used to evaluate goodwill for impairment during interim periods in accordance with Statement 142 and those used to evaluate long-lived assets for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. While we acknowledge that many of those triggers would not apply to NPOs, they nevertheless provide a basis for a model.

Additionally, the qualitative evaluation could result in an entity's recognition of an impairment in the incorrect period. For example, sometimes the value of goodwill may decline in smaller increments over several reporting periods. Because of the subjectivity and lack of sensitivity of the model, goodwill could be overstated in periods in which it is actually declining in value and would be written off in a period occurring after its initial decline in value.

> *Question 5—Is the guidance for identifying the triggering events appropriate, understandable, and sufficient? If not, why and how should the guidance be modified and are there additional examples that should be included?*

No. See our response to Question 4 above.

> *Question 6—If an identified triggering event occurs, do you agree with the measurement of the impairment loss (equal to the carrying amount of goodwill related to the acquisition within the reporting unit)? If not, why and what alternative do you suggest?*

As previously stated, the fair-value-based model in Statement 142 would produce more relevant information and help ensure the recording of impairments of goodwill in the period in which they occur. However, we recognize that the cost of applying the Statement 142 model *may* not exceed the benefits derived. If the FASB concludes that the benefits provided by a Statement 142 impairment test do not exceed the cost of application, we would not object to the proposed trigger based model (with the changes suggested in question 4), and the write-off of the entire carrying value of goodwill.

Changes in the Nature of a Reporting Unit's Primary Support

> *Question 7—Is the guidance for determining what method of impairment should be applied when there is a change in the nature of a reporting unit's primary support appropriate, understandable, and sufficient? If not, why and how should the guidance be modified or clarified?*

Yes.

Benefits and Costs of the Proposed Requirements

> *Question 8—What costs do you expect to incur if the requirements of the proposed Statement were issued as a final Statement? What benefits do you expect? How could the Board further reduce the related costs of applying the requirements of the proposed Statement without significantly reducing the benefits?*

While mergers and acquisition transactions between NPOs are not as common as those between for-profit entities, applying the proposed Statement to such transactions will be costly, specifically regarding the tracking of goodwill and the performance of an annual impairment test. In addition, the Exposure Draft's requirement for NPOs to apply Statement 131 in identifying reporting units adds cost and complexity for these organizations without significantly benefiting financial statements users. The Board should consider field-testing the provisions of the proposed Statement to estimate the cost of application versus the resulting benefits.

Other Comments

Paragraph 67 of the proposed Statement states, in part, that "a not-for-profit organization shall disclose in any interim financial information the **reportable segment** or **segments** in which an impairment loss might have to be recognized..."[Emphasis added.]

We believed that the requirement to apply Statement 131 in the Exposure Draft only related to the identification of reporting units. We assume that the above disclosure was intended to apply to "reporting units" and not to reportable segments. The proposed disclosure, as currently drafted, would be inconsistent with Statement 142, which only requires disclosure of goodwill and intangible assets, and any related impairments, by segment if that entity was required to follow the guidance in Statement 131 for segment reporting purposes. If "reportable segments" was the intended language then we do not see the value of this disclosure; especially since a vast majority of entities are not required to apply Statement 131. The FASB should either eliminate this disclosure requirement or clarify that this disclosure only applies to NFPs that are required to apply the guidance in Statement 131.

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