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June 6, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

RE: Proposed Accounting Standards Update, “Testing Goodwill for Impairment” (File Reference No. 2011-180)

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Accounting Standards Update, *Testing Goodwill for Impairment* (the proposed ASU). While we support the Board’s efforts to reduce unnecessary complexity in financial reporting and including qualitative considerations in the annual goodwill impairment test, we are not convinced that the proposed approach would reduce the complexity in testing goodwill for impairment. Additionally, we believe that the approach in the proposed ASU may actually make the goodwill impairment test more confusing and complex by adding an optional more-likely-than-not assessment prior to the application of the current impairment test. Differences between the impairment tests for goodwill and other indefinite-lived intangible assets also add unnecessary complexity to accounting requirements.

Rather than establishing a new optional more-likely-than-not assessment, we suggest that the Board consider providing additional guidance on the existing goodwill impairment model to indicate that, in some circumstances, consideration of qualitative and quantitative factors may be sufficient to conclude that the carrying amount of the reporting unit does not exceed fair value in step one of the current goodwill impairment test without performing a full valuation of the reporting unit. In addition, the current “remote” criteria in ASC 350-20-35-29(c) for carrying forward a detailed determination of fair value from the prior year could be revised to allow consideration of prior year determinations in more situations than are currently permitted.

We are concerned that the proposed more-likely-than-not assessment may be difficult for an entity to apply and support with the degree of precision that is suggested by a determination as to whether there is a more than 50 percent likelihood that the fair value of the reporting unit is less than its carrying amount and might result in not performing the quantitative assessment in circumstances in which a more detailed quantitative assessment would be appropriate. Further, it is unclear in the proposed ASU as to how the Board expects that an entity would apply the more-likely-than-not test. For example, forming a conclusion based on a more-likely-than-not threshold would appear to require an entity to consider a variety of scenarios, estimates of fair



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values under those scenarios, and potentially probabilities related to those scenarios. To reach a conclusion that it is not more-likely-than-not that the fair value of a reporting unit is below its carrying amount, it would seem that the entity would need to make some estimation of the fair value of the reporting unit. Even if that estimate is only a rough approximation, it would seem that the entity would need to conduct some quantitative analysis of factors (e.g., analysis of the impact of industry, economy, and entity growth, operations, trends, etc.) impacting the fair value of a reporting unit. We believe the Board should clarify in the final ASU how it intends for the more-likely-than-not assessment to be applied. As a result, the use of a more-likely-than-not threshold with the accompanying need to consider a variety of scenarios when performing the assessment, if that is what the Board intended, could actually lead to additional costs to the entity and to inconsistent application or interpretation without further clarification.

Additionally, due to the concerns noted in the Basis of Conclusions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, we believe it would be appropriate for an entity to perform a more detailed quantitative assessment when there is significant evidence that raises questions about a potential goodwill impairment even if the entity were to conclude that it is, for example, only 45 percent likely that the fair value of the reporting unit is less than its carrying amount, assuming the entity was able to come to such a conclusion without performing a quantitative assessment. If the Board finalizes the proposed ASU with a more-likely-than-not threshold, we believe that the description of the more-likely-than-not assessment should be revised to require a positive assertion that it is more-likely-than-not that the fair value of the reporting unit is not less than the carrying amount. As currently written, a determination that there is a 50 percent likelihood that fair value is less than the carrying amount would not require the entity to proceed to step one of the goodwill impairment test. Although we recognize that it is unlikely that entities would be able to make such determinations with that level of precision, we believe that the accounting literature should be stated in a way that would require a positive assertion that fair value is not less than the carrying amount.

The Board notes in BC12 and BC29 of the proposed ASU that many companies have not used the option to carry forward their previous estimate of a reporting unit's fair value as permitted by ASC paragraph 350-20-35-29. One of the three criteria that must be met for this option to be available is that "based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is *remote*." This requirement establishes a high threshold before an entity can conclude that carrying forward the previous fair value measurement is appropriate and it is possible that in many fact patterns entities have been unable to reach such a conclusion. As noted above, as an alternative to the approach in the proposed ASU, the Board may want to consider whether a change in the threshold in ASC paragraph 350-20-35-29(c) might accomplish the Board's objective without the need to revise the overall goodwill impairment model.



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Finally, we understand that the proposed amendments do not affect the impairment test of indefinite-lived intangible assets because the Board decided to limit the scope of the project only to the impairment of goodwill. Hence, an entity would be required to continue to perform the annual quantitative assessment for indefinite-lived intangible assets based on the current guidance. Unnecessary differences between the impairment tests add unnecessary complexity to the accounting requirements. We believe that the Board should reconsider whether the qualitative assessment would be appropriate for indefinite-lived intangible assets if it is appropriate for goodwill, which generally may be considered to have more risk of potential impairment than indefinite-lived intangible assets.

Our responses to the Board's specific questions on the proposed ASU are set forth in the accompanying Appendix. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Sincerely,

KPMG LLP



Appendix

Question 1: Please describe the entity or individual responding to this request.

- a. Please indicate whether you primarily are a preparer, user, or auditor of financial statements or, if other, please specify.***

We are auditors of financial statements of both public and nonpublic entities.

- c. If you are an auditor, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, nonpublic entities, or both.***

KPMG LLP, the U.S. audit, tax and advisory services firm, operates from 87 offices with more than 23,000 employees and partners throughout the U.S., and our practice focuses on both public and nonpublic entities.

Question 4: For auditors, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why. Does your response differ based on whether the entity is public or nonpublic?

Although consideration of qualitative factors would be appropriate in some circumstances and would appropriately reduce the costs and efforts of applying goodwill impairment tests in those circumstances, we believe that the approach described in the proposed ASU may not reduce the overall complexity of the goodwill impairment test. The current requirements of ASC Section 350-20-35 are well understood in practice and, although application of that guidance may require significant efforts and costs in certain situations, the accounting guidance is not complex. Accordingly, we do not believe that the proposed amendments would necessarily reduce the complexity of the existing guidance.

As noted in our general comments, we are uncertain as to the processes that the Board believes entities would need to put in place in order to reach a more-likely-than-not assessment that Step 1 of the goodwill impairment test is unnecessary and therefore we are not convinced that the proposed approach will significantly reduce the cost of applying the current accounting requirements. Further description and an example of how the Board expects an entity would actually apply the more-likely-than-not assessment may be helpful to entities in performing that assessment.

Additionally, in our experience, it is the application of Step 2 of the two-step goodwill impairment test where entities incur significant costs and added complexity. In many cases, Step 1 of the test does not result in significant costs for entities and is less complex than Step 2. Hence, we believe that the more-likely-than-not assessment may not necessarily reduce costs and complexity for many entities to the extent that the Board may desire.

The Board notes in BC29 of the proposed ASU that many companies have not used the option to carry forward their previous estimate of a reporting unit's fair value as permitted by ASC paragraph 350-20-35-29. One of the three criteria that must be met for this option to be available

is that “based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is *remote*.” This requirement establishes a high threshold before an entity can conclude that carrying forward the previous fair value measurement is appropriate and it is possible that in many fact patterns entities have been unable to reach such a conclusion. As such, it is certainly possible that auditors have concluded in particular circumstances that entities have not met the criteria in that paragraph given the remote threshold. As an alternative to the approach in the proposed ASU, the Board may want to consider whether a change in the threshold in ASC paragraph 350-20-35-29(c) might accomplish the Board’s objective without the need to revise the overall goodwill impairment model.

Our response to this question is the same for both public and nonpublic entities.

Question 5: For users, do you believe that the qualitative approach for testing goodwill for impairment will delay the recognition of goodwill impairment losses or affect how you evaluate goodwill reported in the financial statements? If yes, please explain.

Although we understand that this question is directed to financial statement users, we would also like to offer our response to this question. Appropriate consideration of qualitative factors in assessing whether the fair value of a reporting unit is less than its carrying amount would not necessarily alter the timing of recognition of goodwill impairment losses. However, we believe that the more-likely-than-not assessment as described in the proposed ASU presents a risk that the recognition of goodwill impairment losses could be delayed. If Step 1 of the goodwill impairment test is only performed when there is greater than a 50 percent likelihood that fair value is less than the carrying amount, then there is the possibility, even with an appropriate more-likely-than-not assessment, that Step 1 is not performed when fair value actually is less than the carrying amount.

Question 6: Do you agree that the proposed examples of events and circumstances to be assessed are adequate? If not, what changes do you suggest?

While the proposed examples provide a reasonable starting point, we believe that the examples would be more useful if they were better linked to valuation techniques that might be used in estimating the fair value of a reporting unit. For example, we think it would be useful for the examples to include some discussion of how the factors might affect cash flows if a discounted cash flow model is used. This could include a discussion of how qualitative factors that affect cash flow projections such as c., d. and e. in the proposed ASU paragraph 350-20-35-3C might affect the estimated future cash flows. Similarly, factors such as b. and g. in that paragraph might be linked to market approach methods. Additional factors related to cash flow projections may include operating results or cash flows that fall short of previous projections or budget amounts. Further factors to consider are significant changes in the fair value of individual assets within a reporting unit. After the cash flow factors, the list could include factors related to the discount rate, such as changes in the risk-free rate and changes in risk premium(s) that market participants are demanding.



We also suggest that the proposed guidance clearly indicate that an entity would need to consider all events and circumstances that would impact the fair value of its reporting unit because the proposed approach would require a more-likely-than-not assessment of whether the fair value of a reporting unit is less than its carrying amount.

Question 7: Do you agree that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear? If not, how can the guidance be improved?

We are not clear how the proposed more-likely-than-not approach to an inherently quantitative assessment would be applied under the proposed ASU because the more-likely-than-not assessment would seem to require an entity to make an estimate of the fair value of a reporting unit at least at a high level. It would be helpful if the Board provided guidance regarding whether that is what the Board intended and what procedures an entity would be expected to apply to reach a conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. Further, because a relatively small change in the events and circumstances might change the assessment from not more-likely-than-not in one period to more-likely-than-not in a subsequent period, it would be useful if the final ASU provided guidance on consideration of changes in assessment from one period to another. For these reasons, we also recommend that the Board provide an example illustrating how the more-likely-than-not assessment would be applied, particularly if the Board believes that the assessment could be performed without some estimate of the fair value of a reporting unit.

Additionally, we believe that the Board needs to address how the absence of negative factors should be considered when performing the more-likely-than-not assessment. All of the examples in the proposed ASU appear to be negative factors and an entity is directed to consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. However, in many situations there will be a mixture of positive and negative factors and the more-likely-than-not assessment will be even more complex in assessing the impact of such factors on fair value and the likelihood of various scenarios.

Question 8: Do you agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities? If not, please explain why.

We agree that any amendments to the existing requirements for goodwill impairment tests should be applicable to both public and nonpublic entities.

Question 9: Do you agree with the proposed effective date provisions? If not, please explain why.

If the Boards finalize an ASU before the end of the year, we agree that the proposed effective date provisions would be appropriate.