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2012-100  
Comment Letter No. 14  
233 N. Michigan Ave., Suite 2500  
Chicago, IL 60601

April 23, 2012

Via email to [director@fasb.org](mailto:director@fasb.org)

Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Testing Indefinite-Lived Intangible Assets for Impairment* (File Reference No. 2012-100)

Dear Ms. Cospers:

We are pleased to provide comments on the indefinite-lived intangible assets exposure draft, and support the Board's objective to reduce the cost and complexity of the related impairment test.

We note that the Board is issuing this exposure draft in part to address stakeholder concerns that the impairment assessment for identifiable indefinite-lived intangible assets is no longer consistent with that of goodwill as a result of ASU 2011-08.<sup>1</sup> However, given the difference between the nature of goodwill and identifiable intangible assets, we have reservations that the premise used to estimate their fair value should be the same. Goodwill is a residual asset that the Board has previously concluded cannot be valued directly.<sup>2</sup> In contrast, other intangible assets are valued using specific methods that depend on the nature of the underlying asset. Therefore, we do not believe that many of the events and circumstances used in the goodwill assessment would be particularly relevant impairment indicators for indefinite-lived intangible assets.

Similarly, we are concerned that the exposure draft would further diverge the impairment models for indefinite- and finite-lived intangible assets. For example, a trade name can be finite-lived or indefinite-lived, such that it may or may not be amortized. We are not certain that distinction justifies a qualitative impairment assessment in one case, but not the other. The disparity in these approaches is counter-intuitive and could result in different outcomes despite the similar nature of the underlying asset. This is particularly true when the amortizing asset is also subject to an undiscounted cash flow test to first determine its recoverability under existing GAAP.

While we support the Board's objective to improve the current impairment model, we remain concerned that a qualitative option may not ultimately achieve that goal. As discussed in our recent letter to you regarding the qualitative assessment for goodwill, it is difficult to rule out the possibility of second-guessing and its attendant costs, but more time is necessary for practitioners to gain experience with that standard.

For these reasons, we believe a broader reconsideration of the impairment model for all intangible assets would be a better approach for reducing cost and complexity, a comment we

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<sup>1</sup> *Testing Goodwill for Impairment*

<sup>2</sup> See paragraph B328 of Statement 141(R), *Business Combinations*.

Technical Director  
Financial Accounting Standards Board  
Page 2 of 5

made to the SEC's Federal Advisory Committee on Improvements to Financial Reporting (CIFIR) several years ago.<sup>3</sup> However, if the Board moves forward with this narrowly-scoped project, our responses to the detailed questions in the exposure draft are provided in the appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at (312) 616-4667 or Adam Brown, Partner in the National Accounting Department at (214) 665-0673.

Very truly yours,

Handwritten signature in black ink that reads "BDO USA, LLP".

BDO USA, LLP

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<sup>3</sup> See page 4 of our March 31, 2008 comment letter at <http://www.bdo.com/download/777>.

## Appendix - Questions for Respondents

Please note we have limited our responses to questions posed to auditors specifically, as well as those intended for all constituents.

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

- a. Please indicate whether you primarily are a preparer, user, or auditor of financial statements or, if other, please specify.
- b. If you are a preparer of financial statements, please indicate whether your entity is public or nonpublic and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric). In addition, include a description of the type of indefinite-lived intangible assets held by your entity.
- 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.
- d. If you are a user of financial statements, please indicate in what capacity (for example, investor, analyst, or rating agency) and where in the capital structure you are most focused (for example, debt or equity).

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**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?

Consistent with our comment letter on the goodwill impairment exposure draft, we are concerned that the proposed amendments may not actually reduce overall costs and complexity. We continue to question what level and type of documentation for the qualitative assessment would be persuasive to all constituents (primarily preparers, users, auditors, and regulators) and if the economic costs associated with second-guessing will offset any intended cost savings. We perceive no lessening of the potentially conflicting business and legal incentives that exist in the current financial reporting environment that contribute to lengthy and costly debates when differences of opinion are reached in good faith about judgmental conclusions, particularly for public companies.

**Question 6:** Do you agree that the examples of events and circumstances in paragraph 350-20-35-3(a) through (e) are helpful in assessing whether significant inputs to the fair value measurement have changed significantly to indicate that it is more likely than not that an indefinite-lived intangible asset is impaired? If not, what additional examples of events and circumstances do you suggest?

No, we do not agree that the examples of events and circumstances are particularly helpful for assessing the impairment of indefinite-lived intangible assets. We note that the listed factors are the same as those in ASU 2011-08 for assessing goodwill impairment. While we acknowledge that the factors provided are not intended to be all-inclusive, we believe the final standard should highlight the distinction between goodwill (which is a residual) and other finite lived assets in the final amendments and in the basis for conclusions. At a minimum, we believe the final standard should specifically refer to paragraph 360-10-35-21. This should assist practitioners in identifying the factors that are most relevant to the value of the asset in question, such as specific business, legal and regulatory factors.

In this context, we believe the final standard should encourage or require practitioners to consider the valuation model and underlying assumptions that were used to measure the asset initially. We would expect that exercise to indicate that the events and circumstances indicating potential impairment may be more granular than the typical goodwill factors. For example, the performance of an indefinite-lived brand may differ significantly from the overall performance of the company and thus brand specific factors should also be considered. Additional factors in evaluating impairment of a brand may include prospects for brand revenue including existing SKUs and contemplated brand extensions, the level of advertising and brand promotion, positive and negative brand publicity, and observed market-place royalty rates for the subject brand or comparable brands.

**Question 7: Do you agree that nonpublic entities should be exempt from disclosing quantitative information about significant unobservable inputs used in measuring the fair value of an indefinite-lived intangible asset as required in paragraph 820-10-50-2(bbb), as amended by Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*? If not, please explain why.**

We agree.

**Question 8: Do you agree with the proposed effective date provisions? If not, please explain why.**

If the Board moves forward with this project, we agree with the proposed effective dates. However, to the extent that IFRS is incorporated into the US financial reporting system in the near future, and consistent with the view expressed in our comment letter response to the goodwill impairment exposure draft, we do not believe that an additional short-lived change to the impairment model is particularly beneficial if it is followed by a different approach under IFRS.

**Other observations:**

- We note that paragraphs 350-30-35-18B, 18E and 18F indicate that entities would be required to assess relevant events and circumstances that affect the “significant inputs” used in determining fair value. In contrast, paragraph 350-20-35-3F of ASU 2011-08 refers to calculating the “fair value of the reporting unit” rather than the “inputs to” the fair value of the reporting unit. It is not apparent whether the Board intends for practitioners to focus on fair value inputs for identifiable indefinite-lived intangible assets compared to the fair value in

its entirety for goodwill. We suggest explaining whether a difference is intended with the disparity in the language and if so, why. If a difference is not intended, we suggest removing all references to "inputs" to align the language with ASU 2011-08.

- Paragraph 350-30-35-18C also indicates that an entity should consider whether there have been "any changes to the carrying amount of the indefinite-lived intangible asset" when determining whether it is more likely than not that an intangible asset is impaired. We are confused about the Board's intended meaning of "changes to the carrying amount." What is the implied benchmark for comparison? If this phrase is intended to address the Board's concern in BC12 with respect to the length of time since the last quantitative assessment, we suggest incorporating that notion in the final amendments. If this is not the intending meaning, we believe additional clarification is needed.
- Editorial - The introduction on page two of the exposure draft (third paragraph of "main provisions") states in part, "An entity would refer to the examples in paragraph 350-20-35-3(a) through (e) for guidance...." If this text is reproduced in the final ASU, the codification reference should be revised to include the letter "C" as in "350-20-35-3C(a) through (e)."