October 3, 2019

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

File Reference No. 2019-720

Dear Mr. Kuhaneck:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants is pleased to offer feedback on FASB Invitation to Comment (ITC), "*Identifiable Intangible Assets and Subsequent Accounting for Goodwill*." FinREC supports the Board's objective of simplifications and/or improvements related to accounting for certain identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of financial statements. Consistent with the focus of the ITC, our comments focus on Public Business Entities.

The remainder of this letter provides FinREC's responses to certain questions for respondents.

Sincerely,

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APPENDIX: QUESTIONS FOR RESPONDENTS
Section 1: Whether to Change the Subsequent Accounting for Goodwill

1. What is goodwill, or in your experience what does goodwill mainly represent?

While FinREC believes that goodwill may represent different elements depending on the industry and parties to the transaction, FinREC generally agrees with the main components of goodwill identified on p. 6 of the ITC (that is, (a) fair value of the expected synergies and other benefits from combining the entities' net assets and businesses, (b) fair value of the "going concern" element which is the ability of the established business to earn a higher rate of return than if the collection of net assets were acquired separately, and (c) fair values of other net assets that had not been recognized by the acquired entity.)

2. Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits.

While there is no user representation on FinREC, based on users' feedback obtained by the FASB and described on p. 7 of this ITC, FinREC believes that the information provided by the current goodwill impairment model may not be fully understood by users. The ITC indicates that

> Users' feedback is mixed, however. Some users expressed that the alternative to an impairment model—goodwill amortization—provides users with limited or no informational value, particularly if goodwill is amortized over a default period. Those users would prefer to retain the existing impairment model because they believe impairments can confirm the existence of an underperforming acquisition, which they view as useful information.

FinREC believes that while in some cases impairments can confirm the existence of an underperforming acquisition, in other cases it may not be the case due to integration of reporting units and the shielding effect due to other assets included in a reporting unit's fair value. For example, a reporting unit's unrecorded fair value gains from holding property or the existence of unrecognized intangible assets such as a brand may mask a decline in the implied value of goodwill. As a result, FinREC questions whether the benefits of the information provided by the current goodwill impairment model justify the costs.

3. On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

On a cost-benefit basis, FinREC generally supports goodwill amortization with impairment testing. However, as indicated in our responses to Questions 9 and 10, we also recommend certain changes to the goodwill impairment test to reduce its costs (making it a trigger-based test, provided the amortization period is fairly short, and elevating it from the reporting unit level to the operating segment level). Furthermore, we also note that cost savings from introducing goodwill amortization may not materialize if the amortization model is overly complex.

4. If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you *did not* select certain characteristics.

a. A default period
b. A cap (or maximum) on the amortization period
c. A floor (or minimum) on the amortization period
d. Justification of an alternative amortization period other than a default period
e. Amortization based on the useful life of the primary identifiable asset acquired
f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
g. Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

While FinREC members have very diverse views regarding the appropriate amortization period, they generally agree that the most simplistic and least costly approach would be to amortize goodwill over a default period. Other approaches (such as ability to justify an alternative amortization period other than a default period) may be more principles based, but they would introduce complexity and additional costs.

5. Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period? Please indicate yes or no and explain.

Yes, FinREC views on amortization versus impairment of goodwill depend on the amortization method and/or period because a complex amortization method and/or impairment model could reduce the benefits of introducing the amortization model. FinREC believes that if the amortization period is fairly short, it would justify moving from annual goodwill impairment test to the trigger-based test, which would result in cost-savings (see our response to Question 9).

On the other hand, FinREC believes that an annual impairment test may need to be retained if long amortization periods are adopted, which will not lead to simplification or cost savings over the current model until the later years when the unamortized balance of goodwill is smaller.

7. Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test?

Yes, based on early experience, it appears that the amendments in Update 2017-04 reduce the cost to perform the goodwill impairment test in the first year. However, we are not certain if it will result in cost savings in subsequent years. Furthermore, because ASU 2017-04 is not effective until 2020, the number of companies that have adopted it so far is relatively small and it would be premature to make conclusions so early in the process.

8. Do the amendments in Update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test?

Our experience is that the amendments in Update 2011-08 resulted in some cost savings. However, the extent of these cost savings depends on specific facts and circumstances. Furthermore, we understand that information necessary to demonstrate sufficiency and effectiveness of controls prevents some companies from using the qualitative screen.

Please explain and describe any improvements you would recommend to the qualitative screen.

FinREC has not identified any areas to improve with respect to the qualitative screen.

9. Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually? Please explain why in your response.

If this question pertains to the current “impairment only” model (that is, with no amortization permitted), FinREC would strongly oppose removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually.

If this question pertains to the “amortization and impairment model,” as indicated in our response to Question 5, FinREC supports moving to the trigger-based test provided the amortization period is fairly short. FinREC notes that this approach would be consistent with the current requirements for other depreciable assets.

Also, we would like to emphasize that we do not support and would object to an “amortization only” model that requires no impairment testing at all.

10. Relative to the current impairment model, how much do you support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)? Please explain why in your response.

FinREC opposes allowing any optionality as it would lead to diversity in practice. We would also oppose allowing companies to test goodwill at the entity level because we believe it would significantly reduce the possibility that an entity would have an impairment, and result in the possibility that dissimilar businesses would be included in the same test.

However, we would be supportive of requiring entities to perform the goodwill impairment test at the operating segment level (presuming the FASB project on segment reporting retains the operating segment unit of account). Performing the test at the operating segment level would reduce the number of impairment tests performed and would at least ensure that test would include businesses that are managed as a unit. While performing the test at the operating segment level would also reduce the possibility of an impairment, using it in combination with goodwill amortization would ensure that goodwill would eventually be derecognized. This approach might also reduce the impact of reorganizations when the reorganization occurs within the same operating segment.

11. What other changes to the impairment test could the Board consider? Please be as specific as possible.

Other than increasing the level of performing the goodwill test from the reporting unit level to the operating segment level and making it a trigger-based test (only if combined with goodwill amortization and the amortization period is fairly short), we would not propose any other changes to the goodwill impairment test.

Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

13. Please describe what, if any, *cost savings* would be achieved if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific purchase price allocation or subsequent accounting cost savings. Please list any additional intangible items the Board should consider subsuming into goodwill.

FinREC does not support subsuming into goodwill intangible assets such as patents, technology, and trademarks that have their own unique useful lives, can be separately licensed, and their continued use may not be correlated to the amortization period of goodwill.

With respect to noncompete agreements and certain customer-related intangible assets, our observation is that subsuming these assets into goodwill may not significantly reduce the cost and complexity. This is because the application of some valuation methodologies may still require measuring the fair value of these identifiable, but unrecognized, intangible assets for purposes of calculating contributory asset charges, which are necessary inputs in the determination of the fair value of other recognized identifiable intangible assets that are not subsumed into the goodwill. Overall, FinREC recommends that the Board reach out to the Private Company Council (PCC) to determine whether any cost savings have been achieved by private companies that subsumed these assets into goodwill under the PCC alternative.

14. Please describe what, if any, *decision-useful information* would be lost if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets, or other items) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific analyses you perform that no longer would be possible.

FinREC believes that some decision-useful information would be lost if certain recognized intangible assets were subsumed into goodwill and amortized. However, we defer to what the Board learns from users of PBE financial statements.

15. How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

FinREC is not aware that the measurement of noncompete agreements or certain customer-related intangible assets is particularly unreliable. Valuation models used to value these assets are generally well understood and the practice is well established. Although there is some subjectivity around certain inputs used to value these assets and the resulting measurement is typically categorized as level 3 (which is the case for most intangible assets), there is generally support that can be provided for these measurements and they can be validated during the audit process.

16. To gauge the market activity, are you aware of instances in which any recognized intangible assets are sold outside a business acquisition? If so, how often does this occur? Please explain.

Yes, FinREC is aware of instances in which recognized intangible assets (such as customer lists, intellectual property, royalty arrangements, and distribution arrangements) are sold outside of business acquisitions. Because these transactions occur with sufficient frequency, FinREC is concerned that subsuming such assets into goodwill will lead to issues with day 2 accounting.

17. Of the possible approaches presented, which would you support on a cost-benefit basis? Please rank the approaches (1 representing your most preferable approach) and explain why you may *not* have selected certain approaches.

a. Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill

b. Approach 2: Apply a Principles-Based Criterion for Intangible Assets

c. Approach 3: Subsume All Intangible Assets into Goodwill

d. Approach 4: Do Not Amend the Existing Guidance.

Focusing on the potential amendments to the goodwill impairment test, FinREC supports Approach 4. FinREC believes that the current guidance is well understood and has worked well. FinREC firmly rejects Approach 3.

18. As it relates to Approach 2 (a principles-based criterion), please comment on the operability of recognizing intangible assets based, in part, on assessing whether they meet the asset definition.

FinREC notes that Approach 2 would likely require a broader scope project.

Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets

20. What is your assessment of the *incremental costs and benefits* of disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss?

At this point, FinREC cannot adequately comment on disclosures because disclosures will depend on recognition and measurement requirements, which are yet to be determined.

21. What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

FinREC has no additional suggestions for disclosures.

22. What is your assessment of the *incremental costs and benefits* of disclosing quantitative and qualitative information about the agreements underpinning material intangible items in (a) the period of the acquisition and (b) any changes to those agreements for several years post-acquisition? Please explain.

FinREC is unclear what quantitative and qualitative information is being contemplated in this question. However, FinREC is concerned about the challenges and costs associated with tracking information about acquired intangible assets after a certain period of time following a business combination, especially as those assets are integrated into the broader business.

23. Are there other changes (deletions and/or additions) to the current disclosure requirements for goodwill or intangible items that the Board should consider? Please be as specific as possible and explain why.

FASB ASC 350-30-50-2 (a) (3) requires that for intangible assets subject to amortization, entities disclose "the estimated aggregate amortization expense for each of the five succeeding fiscal years." FinREC observes that this disclosure assumes that companies are in a steady state and will not acquire additional assets, which is not the case for many companies. As such, FinREC believes that this disclosure is not meaningful. Furthermore, there is no such disclosure requirement for property, plant, and equipment in FASB ASC 360-10-50. As a result, FinREC would recommend removing this disclosure requirement for intangible assets.

Furthermore, depending on which accounting model is chosen, there may be additional disclosure requirements that would need to be eliminated or added.

Section 4: Comparability and Scope

24. Under current GAAP, to what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

The Private Company Decision-Making Framework already includes a process for determining when it is appropriate for the accounting for private companies to deviate from the accounting for public companies. FinREC supports continued application of this framework.

25. Please describe the implications on costs and benefits of providing PBEs with an option on how to account for goodwill and intangible assets and the option for the method and frequency of impairment testing (described previously in Sections 1 and 2).

FinREC does not support providing PBEs with an option on how to account for goodwill (amortize vs. not amortize) and intangible assets and the option for the method and frequency of impairment testing.

For PBEs, the focus on earnings per share (EPS) and net income is much more significant than for private companies. If PBEs have options regarding amortization, it will result in less comparable EPS and net income presentations.

By extension, if the Board proceeds with requiring PBEs to amortize goodwill, FinREC recommends that the Board also consider requiring private companies to apply the same model.

26. To what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.

We support comparable standards for GAAP and IFRS for public entities, wherever possible. We are encouraged that the IASB also has a research project on goodwill and impairment, and that others in the world have shared with them viewpoints consistent with ours.

Other Topics for Consideration

28. Do you have any comments related to the *Other Topics for Consideration* Section or other general comments?

For certain indefinite-lived intangible assets that are similar to goodwill, FinREC recommends that the FASB consider whether such assets should also be considered for amortization.

Next Steps

29. Would you be interested and able to participate in the roundtable?

Yes