**KPMG LLP**
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

January 20, 2021

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

**RE: Proposed Accounting Standards Update, *Intangibles—Goodwill and Other: Accounting Alternative for Evaluating Triggering Events* (File Reference No. 2020-1100)**

Dear Ms. Salo:

We appreciate the opportunity to comment on the proposed ASU, *Intangibles—Goodwill and Other: Accounting Alternative for Evaluating Triggering Events*. We support the Board's efforts to reduce the cost and complexity for a private company to evaluate goodwill triggering events. However, we believe it is necessary to expand and clarify the scope of the proposal to reduce complexity and improve understandability. This letter describes our key observations and suggestions.

**Expand the scope to include interim financial information**

We support the proposed amendments because, in the absence of a discrete event, it can be difficult to determine a specific date on which a goodwill triggering event occurred. We also believe it is most practical to do the evaluation as of each reporting date. For those reasons, we believe the Board should expand the scope to include entities that report interim financial information and should clarify that changes in reporting frequency do not affect the scope of the alternative. Instead, changes in reporting frequency should be accounted for prospectively.

Under our suggested approach, a private company or NFP would be required to evaluate the presence of a triggering event only at each reporting date. For example, a private company that reports goodwill (or accounts that would be affected by a goodwill impairment) only on an annual basis would have to perform the triggering event assessment only as of its annual reporting date. In contrast, a private company that reports goodwill on a quarterly basis would be required to perform the triggering event assessment at each quarterly reporting date but would not be required to assess for triggering events during the quarter.

Under our suggested approach, a change in frequency of reporting would not affect whether an entity is in the scope of the alternative. Both entities that report on an interim basis and entities that report only on an annual basis would be in scope. In contrast, under the proposed amendments, the change from reporting only annual financial information to reporting interim and annual financial information would change whether an entity is in scope.

We also believe that a change in reporting frequency should not require an entity to reassess triggering events for the prior year even if the new reporting requires comparative interim information. For example, a private company that elects the alternative in a year in which it reports only annual financial information, but in a subsequent year must report quarterly financial information with comparative periods, should not have to assess the triggering events for the prior year comparative quarters. Using the same example, if there was an impairment in the previous annual period, we believe the entity could record the impairment in the fourth quarter of the comparative period and disclose in the interim financial statements that there was a subsequent impairment.

In addition to simplifying the scope of the proposed amendments and eliminating the potential that a change in the frequency of reporting would affect whether an entity is within the scope, our suggested approach is likely to result in essentially the same outcome as the proposed amendments. This is because, in practice, many entities that report on an interim basis use the interim reporting date as the triggering event assessment date (and if required, use it as the impairment testing date). Our suggested approach would not result in a significant change in practice for these entities, but it would reduce the possibility that their accounting policy for applying the impairment triggering event requirements could result in a material departure from the requirements of GAAP.

**Clarify what is meant by interim financial information**

We believe the Board should clarify what is meant by "only reports goodwill (or accounts that would be affected by a goodwill impairment such as retained earnings and net income) on an annual basis" in paragraph 350-20-15-4A and "provides its users with interim financial information" in paragraph 350-20-15-4B. It appears from the basis for conclusions that providing users with financial information that is affected by goodwill but that is less than a full set of interim GAAP financial statements prepared under Topic 270 would disqualify an entity from applying the alternative and narrow the scope of the alternative. To ensure the scope of this alternative is well understood, we believe the amendments to the Codification (not just the basis for conclusions) should be clear on what it means to provide interim financial information. We believe these clarifications are necessary even if the Board accepts our suggestion to expand the scope to include interim reporting dates.

Clarifying the Board's intended use of interim financial information is particularly important because its use in the proposed amendments appears to be different from how an NFP evaluates whether it issues interim financial information under ASU 2020-05. An NFP that provides interim financial information to users is not excluded from the scope of that ASU unless it issues a full set of GAAP-compliant financial information, including notes to the financial statements. While the Board should clarify its intent in the final ASU, we also believe it would be helpful to reconcile any differences between ASU 2020-05 and the proposed alternative in the basis for conclusions.

Further, the term 'users' in paragraph 350-20-15-4B is not defined in GAAP but could be construed broadly to include all types of financial statement users, both internal and external to the entity. For example, users of financial information could include investors, lenders, employees, management, directors and customers. Without further clarifying the types of users, we believe there could be confusion about whether reporting packages provided to management, the board of directors and owners should be considered in evaluating an entity's eligibility for the alternative.

To address these points, we suggest specifically stating the difference between interim financial information and issuing interim financial statements under Topic 270 (see Appendix B for our suggested edits). Additionally, we suggest providing a non-exhaustive list of examples of interim financial information and users that would be in scope or out of scope. For example, it would be helpful to provide examples of how the Board expects common financial metrics provided to users, such as EBITDA (which is typically derived from GAAP net income but is a non-GAAP measure), to be evaluated under the proposed amendments.

We also suggest narrowing the type of users to 'external users', and excluding information provided to users from the scope evaluation when that information is provided only to employees, management or board members of the entity.

**Expand the scope to include indefinite-lived intangible assets and long-lived assets**

We support extending the proposed amendments to impairment testing for indefinite-lived intangible assets under Subtopic 350-30 and long-lived assets under Topic 360. The triggering event assessment for goodwill and these assets is similar, and unless the proposed amendments are expanded an entity would still have to evaluate events throughout the year. Additionally, entities with only annual reporting dates have similar challenges of not using hindsight to evaluate interim impairments of these assets. Therefore, not extending the alternative to these assets would limit the benefit of the proposed amendments.

If users find an evaluation of impairment as of the reporting date to be decision-useful information for these other assets, we believe an evaluation only as of an annual date for entities that only report annual financial information would not significantly reduce the usefulness of the information. This is because the annual reporting cycle is short enough that the assets would still be evaluated for impairment in a timely manner.

Appendix A provides our responses to the questions for respondents and includes specific recommendations for the Board to consider. Appendix B provides suggested edits to the proposed amendments.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at kbascom@kpmg.com or Nick Burgmeier at nburgmeier@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

## Appendix A – Responses to Questions for Respondents

### Question 1:

*Do you support introducing an accounting alternative to allow certain entities to evaluate goodwill impairment triggering events only as of the annual reporting date? Please explain why or why not.*

Yes, we believe the proposed alternative is practical, would not significantly diminish the usefulness of the financial information provided by the entity, and that the annual financial reporting cycle still allows goodwill to be evaluated for impairment on a timely basis. If the more relevant information about goodwill is its recoverability at the reporting date, as described in paragraph BC17, the alternative would not reduce the usefulness of that information.

Further, in addition to not monitoring triggering events throughout the year, the alternative provides relief by specifying a triggering event assessment date (and, if triggered, an impairment testing date). Specifying that date eliminates the complexity that preparers experience in trying to identify the specific date of a triggering event and removes the challenge of not using hindsight when a triggering event was identified early in the year, but the entity prepares only annual financial statements.

We acknowledge that the timing of when an entity reports financial information could, in some instances, affect whether an impairment charge is recorded. While this timing issue could reduce comparability between entities, we believe this risk would generally be mitigated by the frequency of testing in the annual cycle and does not outweigh the benefits of the alternative.

### Question 2:

*Should the scope of the amendments in this proposed Update include private companies and not-for-profit entities that only report goodwill that subsequently is accounted for in accordance with Subtopic 350-20 (or any line item that would be affected by a goodwill impairment) on an annual basis?*

We believe the scope of the amendments should include all private companies and NFPs, similar to the other goodwill accounting alternatives. However, as described in our cover letter, we believe the scope of the amendments should be expanded to apply to entities that report interim financial information, otherwise the scope will unduly limit the population of entities that are eligible to apply the proposed amendments.

We believe our suggested approach would simplify the scope and is likely to result in essentially the same outcome as the proposed amendments. This is because, in practice, many entities that report on an interim basis use the interim reporting date as the triggering event assessment date. Our suggested approach would not result in a significant change in practice for these entities, but it would reduce the possibility that their accounting policy for applying the impairment triggering event requirements could result in a material departure from the requirements of GAAP.

*Is the scope of the proposed guidance clear? If not, why?*

No, we do not believe the scope of the proposal is as clear as it could be. As described in our cover letter, we believe the Board should clarify what is meant by "only reports goodwill on an annual basis" in paragraph 350-20-15-4A and "provides its users with interim financial information" in paragraph 350-20-15-4B. Further, without clarification, the term 'users' in paragraph 350-20-15-4B could cause confusion about what types of users could receive interim financial information under the scope of the proposals.

To address these points, we suggest specifically stating the difference between interim financial information and issuing interim financial statements under Topic 270 (see Appendix B for our suggested edits). Additionally, we suggest providing a non-exhaustive list of examples of interim financial information and users that would be in scope or out of scope. We also suggest narrowing the type of users to 'external users', and excluding information provided to users from the scope evaluation when that information is provided only to employees, management or board members of the entity. We believe this clarification is necessary even if the Board accepts our suggestion to expand the scope to interim periods.

**Question 3:**

*As part of its broader recognition and measurement project on the accounting for goodwill, should the Board consider permitting an entity that reports goodwill that subsequently is accounted for in accordance with Subtopic 350-20 on an interim basis to evaluate goodwill impairment triggering events as of the interim reporting date rather than monitoring for triggering events throughout the interim period?*

Yes, as part of its broader project, the Board should consider permitting all entities (public and nonpublic), that report financial information on an interim basis to evaluate goodwill triggering events as of the interim reporting date. As described in our cover letter, we believe the scope of the alternative should be expanded to include entities that report interim financial information. We also believe an approach of assessing triggering events only at the reporting date would benefit both public and private companies and not significantly change practice.

In practice, because of the challenges in identifying the exact date of a triggering event, public companies generally use the interim reporting date as the triggering event assessment date (and consequently, as a goodwill impairment testing date) unless there is a discrete event during the interim period. Given the short time period in question (e.g. three months), that practical approach typically is not significantly different from identifying a specific date. Therefore, specifying the assessment date would reduce complexity by alleviating the need to assess intra-period triggering events (and potentially perform impairment tests) and not significantly change practice.

*Alternatively, should an entity that reports goodwill that subsequently is accounted for in accordance with Subtopic 350-20 on an interim basis be permitted to evaluate goodwill impairment triggering events as of their annual reporting date only? If yes, would you support this guidance for public and nonpublic entities? Why or why not?*

No. We do not believe it would be appropriate to report balance sheet information as of any reporting date without the requirement to assess assets for impairment since the last reporting date.

**Question 4:**

*Should the proposed amendments be limited to goodwill accounted for under Subtopic 350-20? Would you support expanding the proposed amendments to other assets that are subject to triggering event evaluations, for example, long-lived assets and other intangibles? Please explain your answer.*

No, as described in our cover letter we support expanding the proposed amendments to include impairment testing for indefinite-lived intangible assets under Subtopic 350-30 and long-lived assets under Topic 360. The triggering event assessment for goodwill and these assets is similar, and unless the proposed amendments are expanded an entity would still have to evaluate events throughout the year. Additionally, entities with only annual reporting dates have similar challenges of not using hindsight to evaluate interim impairments of these assets. Therefore, not extending the alternative to these assets would limit the intended benefits of the proposed amendments.

If users believe that evaluating impairment as of the reporting date would be decision-useful information for these other assets, we believe an evaluation only as of an annual date for entities that only report annual financial information would not significantly reduce the usefulness of the information. This is because the annual reporting cycle is short enough that the assets would still be evaluated for impairment in a timely manner.

**Question 5:**

*Would the proposed amendments be operable? Why or why not?*

We believe the Board should expand and clarify the scope as suggested in our cover letter. See also the discussion in Questions 2 and 10. In addition to our suggestions, we observed the following, which may create operational challenges.

Entities electing the goodwill amortization alternative would be precluded from evaluating triggering events (and therefore impairment testing) other than on the annual reporting date. We recommend the Board allow an entity to choose an interim date, similar to the annual goodwill impairment testing date for entities that do not elect the amortization alternative, whereby it could perform an interim goodwill triggering event assessment (in addition to an assessment at the annual reporting period). This would allow an entity that has a triggering event to perform its impairment assessment on an interim basis and help meet annual reporting deadlines.

Subparagraph 350-20-35-85(b) states the proposed amendments would not change when to test goodwill as part of a disposal group classified as held for sale. However, this paragraph seems inconsistent with the objective of the proposed amendments because it suggests that when an entity that only reports annual financial information meets the held-for-sale criteria at an interim date but has not sold the disposal group as of the annual reporting date, that entity would be required to evaluate goodwill at the interim date and annual reporting date. We do not see a substantive difference between the held-for-sale scenario and other goodwill triggering events that may justify different timing, such as that noted in paragraph BC42 for the evaluation of goodwill when the disposal of a portion of a reporting unit is more-likely-than-not to occur but not yet completed. We also understand many entities only evaluate the held-for-sale criteria as of a reporting date and this subparagraph may create confusion in practice. As such, we recommend that when goodwill is part of a disposal group classified as held-for-sale the goodwill impairment assessment should only take place as of each reporting date, consistent with the triggering event evaluation.

**Question 6:**

*Would the existing disclosure requirements in Topic 235 and Subtopic 350-20 be sufficient to provide financial statement users with decision-useful information? If not, what other disclosures would be necessary?*

Yes, we believe the proposed disclosure requirements are sufficient.

**Question 7:**

*Should the proposed amendments be effective for annual reporting periods beginning after December 15, 2019, on a prospective basis? Should an entity be permitted to early adopt the proposed amendments as of the beginning of any reporting period for which the entity has not yet issued financial statements or made financial statements available for issuance? If not, why?*

Yes, we believe that the proposed amendments should be effective on a prospective basis and that the amendments should be available immediately for entities that have not yet issued their annual financial statements.

We suggest removing the words "for fiscal years beginning after December 15, 2019" in paragraph 350-20-65-4a. We understand that by allowing early adoption an entity could adopt the proposed amendments in any period for which it had not issued financial statements (or made them available for issuance). Additionally, private companies and NFPs would have an unconditional one-time transition election to elect the proposed amendments at any time, which means there is no required transition date. Therefore, the combination of the early adoption and unconditional one-time election seems to make the December 15, 2019 date irrelevant. Removing the reference to December 15, 2019 would help avoid confusion about when entities can adopt the proposed amendments.

**Question 8:**

*Should the proposed amendments include an unconditional one-time transition election allowing an entity within the scope of the guidance to prospectively adopt the proposed amendments after the effective date without applying the guidance on preferability in Topic 250? If not, why?*

Yes, we believe it is appropriate to use transition guidance consistent with other private company alternatives.

**Question 9:**

*Should the proposed amendments be available on an ongoing basis, or, conversely, should they be applicable for a limited time period (for example, available for reporting periods ending before December 31, 2023)? Please explain your answer.*

We believe the proposed amendments should be available on an ongoing basis. Although the issue being addressed was exacerbated by the effects of COVID-19, if users of the financial statements do not find the interim triggering event assessments and/or impairments to be necessary when there is a significant economic downturn or fluctuations in the business cycle, an interim triggering event assessment may be even less justified from a cost-benefit perspective in a more stable economic environment. Therefore, an alternative that reduces complexity would be appropriate on an ongoing basis.

**Question 10:**

*If a change in an entity's reporting requirements causes it to no longer meet the scope of the proposed amendments, should the entity discontinue application of the alternative on a prospective basis? If that entity meets the scope in a future period, should it be permitted to re-adopt the alternative? If so, should the transition upon re-adoption be on a prospective basis? Should the entity be required to apply the guidance on preferability in Topic 250 once it has determined it is re-eligible? Please explain your answer.*

As described in our cover letter, we suggest expanding the scope of the alternative to include entities that report interim financial information. One of the benefits of our suggested approach is that changing the frequency of reporting financial information would not affect whether an entity is in the scope of the alternative, and therefore would limit any potential need to adopt and re-adopt (and assess preferability on re-adoption).

Under our suggested approach, we believe that changes in reporting frequency should affect the accounting under the alternative only prospectively. For example, a private company that elects the alternative in a year in which it reports only annual financial statements but in a subsequent year reports quarterly financial information with comparative periods would not have to assess the triggering events for the comparative quarters. Using the same example, if there was an impairment in the previous annual period, we believe the entity could record the impairment in the fourth quarter of the comparative period and disclose in the interim financial statements that there was a subsequent impairment.

No matter what approach the Board chooses, we believe the effects of a change in reporting frequency should be applied prospectively with no preferability assessment to avoid undue complexity. However, a voluntary election to un-adopt the alternative or adopt the alternative after the one-time election, should still be subject to preferability in Topic 250.

## Appendix B – Suggested Edits to the Proposed Amendments

We have marked changes to the proposed amendments to illustrate aspects of the approach suggested in our cover letter. We focused on the key sections below, and there may be other consequential amendments the Board would need to make throughout the proposals. Additionally, we did not provide suggested edits that would address expanding the scope to assets other than goodwill; further amendments would be required if the Board expands the scope to include those assets.

### Accounting Alternatives

**350-20-05-5** The Accounting Alternatives Subsections of this Subtopic provide guidance for the following:

a. An entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for amortizing goodwill. If elected, this accounting alternative allows an eligible entity to amortize goodwill and test that goodwill for impairment upon a triggering event.

b. An entity within the scope of paragraph 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation. If elected, this accounting alternative allows an eligible entity to evaluate goodwill impairment triggering events ~~as of its annual reporting date~~ only at each reporting date (interim and annual).

### Accounting Alternatives

**350-20-15-4A** A private company or not-for-profit entity may make an accounting policy election to apply the accounting alternative for a goodwill impairment triggering event evaluation to goodwill subsequently accounted for in accordance with Subtopic 350-20 ~~if it only reports goodwill (or reports accounts that would be affected by a goodwill impairment such as retained earnings and net income) on an annual basis. This accounting alternative may be applied only by entities and to the transactions and activities within the scope of the alternative~~.

~~**350-20-15-4B** An entity that provides its users with interim financial information that presents goodwill or any line item that would be affected by a goodwill impairment and that is prepared in accordance with generally accepted accounting principles (GAAP) is outside the scope of paragraph 350-20-15-4A.~~

### > Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation

**350-20-35-84** An entity may elect to perform its goodwill impairment triggering event evaluation only ~~as of its annual~~ at each reporting date (interim and annual). That is, the entity would not evaluate goodwill impairment triggering events and measure any related impairment ~~on an interim basis~~ between reporting dates. An entity electing the accounting alternative shall assess whether an event or circumstance has occurred that would require an entity to test goodwill for impairment as follows:

a. For an entity that has elected the accounting alternative for amortizing goodwill, the entity's evaluation of a triggering event, as described in paragraph 350-20-35-66, shall be performed only ~~as of its annual~~ at each reporting date.

b. For an entity that performs its annual goodwill impairment test on a date other than its annual reporting date (in accordance with paragraph 350-20-35-28) and has not elected the accounting alternative for amortizing goodwill, the evaluation of a triggering event between annual goodwill impairment testing dates shall be performed only at each reporting date.~~:~~

~~1. If the entity performs its annual goodwill impairment test as of its annual~~ a ~~reporting date, the entity shall not evaluate its goodwill for impairment on an interim basis as described in paragraph 350-20-35-30.~~

~~2. If the entity performs its annual goodwill impairment test on a date other than its annual reporting date (in accordance with paragraph 350-20-35-28), the entity's evaluation of impairment between the annual goodwill impairment test (as described in paragraph 350-20-35-30) and the annual reporting date shall be performed only as of its annual reporting date.~~

**350-20-35-84A** A reporting date for purposes of this alternative includes interim and annual reporting dates at which the entity reports goodwill (or accounts that would be affected by a goodwill impairment such as retained earnings and net income) in accordance with GAAP. For purposes of this alternative, an interim reporting date is not limited to a reporting date for which an entity issues or makes available for issuance financial statements under Topic 270. It would include any date that interim financial information prepared in accordance with GAAP is issued to external users if that financial information could be affected by goodwill impairments. See 350-20-55-XX through 55-XX for further guidance.

**350-20-35-84B** If an entity's reporting requirements change, the entity shall not evaluate triggering events for comparative interim periods in prior annual periods. For example, if an entity reported GAAP financial information only on an annual basis in Year 1 and its reporting requirements changed such that in Year 2 it is required to report GAAP interim financial information on a quarterly basis with comparative periods, it is not required to evaluate triggering events for the interim comparative period. If there was an impairment in the annual financial statements of Year 1, the entity shall record that impairment in the last interim period of Year 1 and disclose the impairment in the interim financial statements.

**350-20-35-85** An entity electing this accounting alternative shall apply it only to goodwill evaluated in accordance with this Subtopic. This accounting alternative does not change the following:

a. The requirement to assess other assets for impairment (for example, long-lived assets and indefinite lived intangibles) under existing guidance. If the impairment test related to other assets would have resulted in a goodwill impairment triggering event, an entity electing this accounting alternative should consider the results of an impairment test related to other assets in connection with its goodwill impairment test only as of its ~~annual~~ goodwill impairment testing date (interim or annual) ~~and annual reporting date, as applicable~~.

b. The timing of when to test goodwill for impairment as part of a disposal group classified as held for sale in accordance with paragraph 360-10-35-39.

c. The requirements to test the remaining goodwill for impairment if only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of in accordance with paragraph 350-20-40-7.

**> Illustrations**

**> > Example 1: Illustration of the Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation**

**350-20-55-27** This Example illustrates the effect of the accounting alternative for a goodwill impairment triggering event evaluation on the impairment conclusion for an entity within the scope of paragraph 350-20-15-4A. This Example is not indicative of every outcome that may occur because facts and circumstances surrounding triggering events are unique to each entity.

**350-20-55-28** Entity A reports GAAP financial information that affects goodwill only as of its annual reporting date. Entity A adopted the accounting alternative for a goodwill impairment triggering event evaluation and performs a goodwill impairment triggering event evaluation as of its annual reporting date. Entity A also adopted the accounting alternative for amortizing goodwill in accordance with paragraph 350-20-05-5 and elected to perform an impairment test for goodwill at the entity level upon the occurrence of a triggering event only. During the second quarter, Entity A lost a significant customer. However, Entity A was able to replace that customer late in the third quarter of the same year, and the entity's operations returned to previously forecasted levels by the annual reporting date.

**350-20-55-29** Entity A evaluates the facts and circumstances as of the annual reporting date and concludes that no triggering event exists; therefore, no further goodwill impairment testing is necessary.

**350-20-55-30** If Entity A had not adopted the accounting alternative for a goodwill impairment triggering event evaluation, it would evaluate the loss of the customer that occurred in the second quarter to determine whether it is a triggering event and, if so, would evaluate whether it is more likely than not that the fair value of the entity is below its carrying value. If Entity A determines that it is more likely than not that the fair value of the entity is less than its carrying value (that is, the loss of the significant customer is an impairment indicator), then it must test goodwill for impairment using the facts and circumstances known in the second quarter and recognize any impairment as needed. If Entity A recognizes an impairment loss due to the loss of a customer that occurred in the second quarter, it is precluded from reversing the impairment loss at a future reporting date even if facts and circumstances change after recognition of the impairment. Entity A must continue to monitor for additional triggering events throughout the year.

In addition to the changes above and as previously described, we believe the Board should provide examples of the types of interim financial information and users under Section 350-20-55 that the Board believes would be in and out of scope.