GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
F +1 000 000 0000
S linkd.in/grantthorntonus
twitter.com/grantthorntonus

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

Via Email to director@fasb.org

Re: Accounting Alternative for Evaluating Triggering Events

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events*.

We appreciate the Board's efforts to address the cost and complexity regarding the subsequent accounting for goodwill for nonpublic companies and not-for-profit entities, without unduly reducing decision-useful information provided to financial statement users. We agree, in light of the current economic environment, that the proposed amendments may reduce cost and complexity for certain private and not-for-profit entities. However, for reasons that are articulated more fully in our detailed responses to the Board's questions, we believe that the proposed amendments should be considered a temporary measure to be reassessed during the course of the Board's broad project to reconsider the accounting model for goodwill applicable to all entities.

Finally, consistent with the Board's findings during their outreach related to the proposed amendments, we believe that impairments of goodwill recognized by all reporting entities under the existing guidance in ASC 350 are generally of limited decision-usefulness to financial statement users. Further, we question whether goodwill meets the definition of an *asset* in the Conceptual Framework. Accordingly, we recommend that the Board take a holistic approach to reconsidering the accounting model for goodwill for all reporting entities in its ongoing broader project.

Our responses to the questions for respondents follow.

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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? Why or why not?

Yes, we support the proposed accounting alternative as a temporary measure to address the complexities faced by private companies and not-for-profit entities in the current economic environment, while the Board continues its work to more holistically consider the accounting model for goodwill. We believe the proposed amendments will reduce the cost and complexity of subsequently accounting for goodwill for private companies and not-for-profit entities within the scope of the proposal, without unduly reducing decision-useful information in the current economic environment. However, as addressed more fully in our response to Question 9, we believe the proposed amendments should have a “sunset” provision.

Additionally, we believe the Board should consider allowing all entities that report at least quarterly to evaluate goodwill impairment triggering events only as of their quarterly reporting dates. We believe such an approach would meaningfully reduce the cost and complexity for many entities that would not be eligible for the proposed amendments, without reducing decision-useful information.

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

While we agree with the scope of the proposed amendments, we believe the scope of the amendments could be made clearer.

For instance, paragraph 350-20-15-4A notes that a private company or not-for-profit entity is not within the scope of the proposed amendments if it “reports goodwill (or reports ***accounts*** that would be affected by a goodwill impairment such as retained earnings and net income)” on an interim basis. We believe the word “accounts” could be construed more narrowly than the Board intends and suggest the following edits to paragraph 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<u>, line items, or amounts</u> that would be affected by a goodwill impairment, such as retained earnings and net income) on an annual basis.

Additionally, paragraph 350-20-15-4B uses the term “line item,” and we believe that paragraph 350-20-15-4A should use symmetrical language.

Finally, it is not clear to us whether a private company or not-for-profit entity that reports a non-GAAP amount that is based on U.S. GAAP amounts, such as EBITDA, would be eligible to apply the proposed amendments. We would suggest the Board

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consider providing explicit guidance regarding their intentions with respect to such non-GAAP amounts.

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 triggering events as of the interim reporting date rather than monitoring for triggering events throughout the interim period? 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?

We believe that the model in U.S. GAAP—which requires an entity to identify the date when a triggering event occurs and, if goodwill is determined to be impaired, to measure impairment as of that triggering event date—is conceptually sound. We believe that analyzing triggering events as of an interim reporting date that is no less frequent than quarterly may be a reasonable accommodation for many entities, reducing the cost and complexity of applying this guidance, without sacrificing decision-useful information.

We do not, however, believe the Board should consider in its broader project regarding the recognition and measurement of goodwill the option to evaluate triggering events only on an annual basis for *any* entity, because we believe the proposed amendments, while responsive to issues faced by private companies and not-for-profit in the current economic environment, may not be responsive to issues faced by reporting entities in future economic environments.

As noted in paragraph 6 of the Basis for Conclusions (BC) of the proposed ASU, the challenge of identifying interim triggering events, and measuring any impairment associated with an interim triggering event, faced by private companies and not-for-profit entities is exacerbated in the current economic environment by the effects of COVID-19. Additionally, it is our experience that many private companies and not-for-profit entities do not believe it is appropriate to recognize impairment as of an interim triggering event date when the conditions that precipitated that triggering event cease to exist as of the financial reporting date (that is, the impairment was “temporary”). The Board noted similar findings during its outreach in BC7. The proposed amendments are responsive to these concerns in the current environment, where the far-reaching economic impacts from COVID-19 began to emerge in the first quarter of calendar year 2020, but, by the end of calendar year 2020, the business of a private company or not-for-profit entity may have been stabilized. As a result, the proposed amendments would allow an in-scope entity to avoid recognizing a “temporary” impairment.

However, in the future, an event that may be similarly “temporary” could arise near an entity’s financial reporting date. Under the proposed amendments, the entity would

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need to assess for impairment triggering events as of the financial reporting date, and, therefore, the entity would likely recognize goodwill impairment as of the financial reporting date, despite the fact that, had the same event emerged earlier, rather than later, in the year, no impairment would have been recognized. We believe it is not possible to justify such starkly different treatment for identical events based simply upon an arbitrarily chosen testing date.

Further, we believe the Board largely addressed the cost and complexity faced by private companies and not-for-profit entities in accounting for goodwill under more normal economic environments through the various existing Private Company Council (PCC) alternatives for goodwill.

As a result, we do not feel that the Board should consider the proposed amendments as part of its broader project on the recognition and measurement of goodwill.

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.

We do not believe the proposed amendments should be expanded to include other assets evaluated for impairment upon identification of a triggering event. We concur with the Board’s reasoning in BC30 and BC31 of the proposed ASU and believe the existing requirements regarding identification of triggering events (and, importantly, measurement of impairment as of the triggering event date) for assets other than goodwill provide decision-useful information to users and are often less complex to test.

With regard to the proposed amendments, we believe that a private company or not-for-profit entity that both applies the proposed amendments and identifies an interim triggering event for an asset or asset group evaluated for impairment under Topic 360 or Subtopic 350-30 should be required to evaluate whether an interim triggering event has occurred for goodwill as of the date of the otherwise identified triggering event. To exclude an evaluation of goodwill triggering events under such circumstances would be counterintuitive, in our view, and would deprive financial statement users of potentially significant decision-useful information. We believe that if a private company or not-for-profit entity has identified other interim triggering events, that requiring it to also consider whether a goodwill triggering event has occurred would impose limited additional costs.

Finally, consistent with our view expressed in Question 1, we believe the Board should consider allowing all entities that report at least quarterly to evaluate impairment triggering events for assets other than goodwill only as of their quarterly reporting dates. We believe such an approach would measurably reduce cost and complexity for many entities, without reducing decision-useful information.

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Question 5: Would the proposed amendments be operable? Why or why not?

We believe the proposed amendments would be auditable and would potentially reduce the complexity of evaluating our clients' triggering events analysis.

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?

We believe this question is best addressed by financial statement users.

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 not?

Because the proposed amendments respond to the concerns of private companies and not-for-profit entities in the current COVID-19 environment, we believe the proposed ASU a should be effective for annual periods beginning after December 15, 2019 on a prospective basis. We do not believe an entity should be permitted to early adopt the proposed amendments, since they respond directly to the economic conditions precipitated by COVID-19, but not to periods that precede COVID-19.

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 an entity within the scope of the proposed amendments should be allowed to prospectively adopt the proposed amendments after the effective date without applying the guidance on preferability in Topic 250. We believe this, in part, because this guidance is consistent with the transition guidance for all PCC accounting alternatives.

Additionally, if the Board modifies the proposed amendments to allow an entity to re-adopt the guidance (that is, if an entity previously adopted the proposed amendments, but was subsequently ineligible and then became eligible again), we believe that any subsequent re-adoption of the proposed amendments should similarly not require application of the guidance on preferability in Topic 250. We do not believe an entity could justify the proposed amendments as "preferable" under the guidance in Topic 250.

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.

Because the proposed amendments respond to concerns of private companies and not-for-profit entities in the COVID-19 environment, but may not respond to their needs in other economic environments, we believe the proposed amendments should apply only for a limited time. Accordingly, we would support the inclusion of a "sunset" provision in the proposed amendments that would end on or before December 31, 2023.

We believe the Board should eliminate the proposed amendments before the sunset date if its broad project on the recognition and measurement of goodwill is completed prior to the sunset date.

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 been determined it is re-eligible? Please explain your answer.

We believe that an entity that previously adopted the proposed amendments, but no longer meets the scope of the proposed amendments, should not discontinue applying the proposed amendments on a prospective basis, but instead should apply the existing guidance on accounting changes in Topic 250. For instance, a private company that becomes a public company should be required to discontinue the guidance on a retrospective basis, similar to how such a company would account for the discontinuance of existing PCC accounting alternatives. We believe this approach is appropriate if a private company or not-for-profit entity no longer meets the scope of the proposed amendments for any reason.

Additionally, we believe that an entity that elected to apply the guidance, and then was subsequently ineligible and then became eligible again to re-adopt the guidance, should be permitted to re-adopt the guidance.

As noted above in our response to Question 8, if the Board modifies the proposed amendments to allow an entity that had previously adopted the proposed amendments, but was subsequently ineligible and then became eligible again to re-adopt the guidance, we believe any subsequent re-adoption of the proposed amendments should similarly not require application of the guidance on preferability in Topic 250. We do not believe an entity could justify the proposed amendments as "preferable" under the guidance in Topic 250.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer, Partner, at Graham.Dyer@us.gt.com or 312-602-8107 or Sandy Heuer, Partner, at Sandy.Heuer@us.gt.com or 612-677-5122.

Sincerely,

/s/ Grant Thornton LLP