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Proposed Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events* (File Reference No. 2020-1100)

Dear Ms. Salo:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*, issued by the Financial Accounting Standards Board (FASB or Board).

In general, we support the Board's objective of providing relief to private companies and not-for-profit (NFP) entities under US GAAP while making sure these entities continue to provide relevant information for users of their financial statements. However, if the Board moves forward with this proposal, we believe that certain aspects of it should be modified to facilitate its implementation. We summarize our more significant observations below.

Scope of the accounting alternative

We recommend that the Board reconsider the eligibility criterion. As written, the proposal would allow a private company or an NFP to use the alternative if it does not provide 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 US GAAP. To determine whether it is eligible to apply the accounting alternative, an entity would have to evaluate all communications it provides to users that may contain financial information presented in accordance with US GAAP, and depending on the content of those communications, its eligibility could change from period to period.

Instead, we recommend that the Board consider simplifying the scope of the alternative to allow a private company or an NFP to evaluate triggering events for goodwill impairment only as of the end of the reporting period for which the entity issues financial statements.[1]

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[1] A full set of financial statements prepared in accordance with US GAAP, as described in Accounting Standards Codification (ASC) 205, *Presentation of Financial Statements*

Under this approach, a private company or an NFP that elects the alternative would test goodwill for impairment on an annual or interim basis depending on the frequency with which it issues financial statements. That is, an entity that issues interim financial statements would still be required to evaluate whether triggering events for goodwill impairment have occurred as of its interim reporting dates, but an entity that only issues financial statements on an annual basis would only evaluate whether triggering events have occurred as of its annual reporting date.

Applicability of the accounting alternative to indefinite-lived intangible assets and long-lived assets

We believe the Board should expand the scope of the alternative to include indefinite-lived intangible assets and long-lived assets, which are also subject to triggering event evaluations. If the Board does not do this, the proposal may not achieve the Board's objective of providing relief from interim impairment testing. Under current guidance, if an entity identifies an impairment triggering event for indefinite-lived intangible assets or long-lived assets as of an interim date, it may also identify a triggering event for goodwill impairment because the triggering events are similar. However, if an entity were to apply the alternative, it would be required to perform an interim impairment test for indefinite-lived intangible assets and/or long-lived assets if it identified a triggering event but would not perform an interim goodwill impairment test even if an event that would otherwise be considered a goodwill impairment triggering event had occurred.

Transition requirements for companies becoming PBEs

We also recommend that the Board consider providing specific transition provisions that would allow a private company that applies the alternative to apply US GAAP for public business entities (PBEs) on a prospective basis if it elects or is required to apply US GAAP for PBEs. Because this issue is broader than this specific proposal, we believe that the Board should develop separate guidance that provides transition provisions for any private company that applies an accounting alternative and then transitions to US GAAP for PBEs.

Our responses to the questions posed in the proposal are in the attached Appendix.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Appendix — Responses to questions in the Proposed Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

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?

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?

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? 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?

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

We do not believe that the proposed amendments are operable because, as we noted in our cover letter, the scope of the proposed accounting alternative relies on the term "interim financial information."

For an entity to determine whether it would be eligible to apply the alternative, it would have to assess all communications it provides to users on an interim basis that may contain financial information presented in accordance with US GAAP. An entity's eligibility to apply the alternative could then change from period to period as a result of changes in financial information provided to users (e.g., selected interim financial information provided to a prospective supplier).

If the Board moves forward with the proposal, we recommend that the Board consider changing the scope of the accounting alternative to allow a private company or an NFP to evaluate triggering events for goodwill impairment only as of the end of the reporting period for which it issues financial statements. This change would eliminate the need to determine whether an entity would be eligible for the alternative based on the interim financial information it provides to users. At the same time, private companies and NFPs that elect the alternative would not be required to monitor for the occurrence of triggering events for goodwill impairment between financial statement reporting dates.

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.

If the Board moves forward with the proposal, we support expanding the proposed amendments to other assets that are subject to similar triggering event evaluations. If the Board does not do so, the proposal may not achieve the Board's objective of providing relief from interim impairment testing.

For example, an entity that identifies triggering events or impairment indicators for indefinite-lived intangible assets and/or long-lived assets as of an interim date would still be required to perform an impairment analysis for those assets. While the entity would only assess whether any triggering events for goodwill impairment have occurred as of its annual reporting date and perform an impairment test if a triggering event occurred, the entity would be required to test the indefinite-lived intangible assets and long-lived asset group for impairment again to properly adjust the carrying amounts of the underlying assets if it needs to perform a goodwill impairment test.

Further, impairment of a long-lived asset group that includes goodwill as of an interim date may indicate that goodwill is also impaired, but an entity that applies the alternative would not test goodwill for impairment as of an interim date. Instead, an entity would assess goodwill impairment triggering events only as of its annual reporting date.

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?

If the Board moves forward with the proposal, we do not believe additional disclosures would be necessary.

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?

If the Board moves forward with the proposal, we agree that the proposed amendments should be effective for annual reporting periods beginning after 15 December 2019, on a prospective basis, and we believe an entity should be permitted to early adopt the proposed amendments as of the beginning of any reporting period for which it has not yet issued financial statements or made financial statements available for issuance.

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?

If the Board moves forward with the proposal, we agree that the proposed amendments should include an unconditional one-time transition election allowing an entity to adopt the accounting alternative prospectively without applying the guidance on preferability in ASC 250.

Also, as stated in our cover letter, we recommend that the Board consider providing transition provisions that would allow a private company to apply US GAAP for public business entities on a prospective basis. The Board should address these transition requirements in this or a separate project that would address the transition for entities that adopt any of the private company accounting alternatives in US GAAP.

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.

If the Board changed the scope of the accounting alternative to allow a private company or an NFP to evaluate triggering events only as of the end of the reporting period for which it issues financial statements, an entity's eligibility would not be at risk of changing in different periods because of financial information it provides to users. The only change that would require an entity to monitor for triggering events more frequently would be a decision to issue interim financial statements. That is, if an entity that previously issued only annual financial statements started issuing interim financial statements, it would be required to assess triggering events for goodwill impairment prospectively as of its interim financial statement reporting dates.