



January 20, 2021

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

Re: File Reference No. 2020-1100

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update (the proposed Update), Intangibles - Goodwill and Other (Topic 350): *Accounting Alternative for Evaluating Triggering Events*. We believe that users of public and private company financial statements require similar information to assess financial performance and results and as such, the application of separate accounting principles for public and private companies should be limited. However, we acknowledge that there may be unique needs and challenges encountered by private company financial statement preparers in applying certain areas of US GAAP. Because of its impact on the cost and complexity of financial reporting for these entities, we support the proposed amendments allowing certain private companies and not-for-profit (NFP) entities to evaluate goodwill impairment triggering events only as of their annual reporting date. However, we believe the scope of the proposed Update as currently written may lead to confusion as to which private companies and NFPs are eligible to apply the amendments and should therefore be clarified.

The Appendix contains our detailed responses to the Questions for Respondents.

If you have any questions regarding our comments, please contact Heather Horn at heather.horn@pwc.com or Andreas Ohl at andreas.ohl@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP



Appendix

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?

Entities that do not issue interim financial statements, and those that are not required to comply with quarterly debt covenants that are impacted by goodwill or goodwill impairments, may wait to perform their assessment of whether impairment triggers for goodwill have occurred until the preparation of their annual financial statements. As a result, it can be complex and costly for these entities to perform an analysis of whether goodwill impairment triggering events occurred during the year, and if necessary, to measure any impairment as of those interim dates. Given the Board's feedback from the users of financial statements that interim goodwill impairments do not provide decision-useful information to the users of private company and NFP financial statements, we support the proposed alternative that would allow these entities to assess triggering events only as of the annual reporting date.

While we support the proposal, we believe that users of public and private company financial statements require similar information to assess financial performance and increase comparability. We therefore continue to believe that different recognition and measurement principles for public and private companies should be limited to instances when there are unique needs and challenges encountered by private companies.

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?

We believe the scope of the proposed Update as currently written may lead to confusion as to which private companies and NFPs are eligible to apply the amendments. Based on the guidance provided in proposed paragraph 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," and therefore cannot apply the proposed amendments. Although not included in the proposed amendments to the codification, the phrase "interim financial information" is further explained in BC 25 as "for example, a balance sheet, an income statement, and specified balances used to compute financial statement ratios."

As currently worded, it is unclear what extent of information provided to one or more stakeholders would disqualify a private company from applying the proposed alternative. The language could be interpreted to mean (1) limited financial information or (2) interim financial statements that include, at a minimum, the disclosure requirements of Subtopic 270-10. The interpretation that financial statements with the related footnotes might need to be prepared to result in disqualification could arise as a result of the inclusion of the phrase "prepared in accordance with generally accepted accounting principles (GAAP)," as compliance with GAAP is often interpreted to mean that disclosures are required.

For example, it is unclear if a private company that provides an unaudited and unreviewed balance sheet, income statement, and/or cash flow statement prepared under US GAAP with its debt covenant calculations would be disqualified from applying the proposed amendments. This is common even when the private company has no covenants that are impacted by goodwill or goodwill impairment (e.g., tangible net worth covenants, EBITDA-based covenants). The proposed Update might be interpreted to exclude such a private company from applying the alternative.



Also consider an NFP that posts interim financial information to EMMA to meet continuing disclosure requirements per their debt agreements. This financial information similarly includes an unaudited and unreviewed balance sheet, statement of operations/activities, and/or cash flow statement prepared under US GAAP. As currently written, the proposed Update might be interpreted to exclude such a NFP from applying the alternative.

The FASB should clarify the extent of information shared with one or more stakeholders that would disqualify an entity from applying the accounting alternative. For example, the guidance could specify that only sharing interim financial information that includes the disclosures required by Subtopic 270-10 would disqualify an entity as long as debt covenant compliance is not impacted by goodwill or goodwill impairment.

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, we believe the Board should consider permitting such an entity to evaluate goodwill impairment triggering events only as of the interim reporting date.

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 broader outreach and study should be performed before considering whether such entities should be permitted to evaluate goodwill impairment triggering events only as of their annual reporting date. We support applying a consistent model for both public and nonpublic entities.

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.

Yes, we believe the proposed amendments should be limited to goodwill accounted for under Subtopic 350-20 and should not be expanded to include other assets that are subject to interim triggering event evaluations. The justification for the proposed amendments is based on the cost and complexity associated with the application of Subtopic 350-20 by certain private companies and NFPs. We believe further outreach and study is needed to determine whether a similar cost and complexity justification applies to the analysis of impairment for any other assets.

Additionally, many private company lending arrangements include debt covenants that are impacted by the carrying amounts of other assets (e.g., tangible net worth covenants impacted by the carrying amounts of long-lived assets). Unlike goodwill impairment, which generally does not impact tangible net worth and/or EBITDA-based debt covenants, expanding the proposed amendments to these other assets would likely have a more significant impact on financial statement users.



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

Yes, we believe the proposed amendments would be operable for those qualifying private companies and NFPs. However, we believe the scope of the proposed Update, in particular the nature of interim financial information that would disqualify entities from applying the amendments, should be clarified (see response to Question 2).

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 existing disclosure requirements in Topic 235 and Subtopic 350-20 are sufficient to provide financial statement users with decision-useful information if the alternative is elected. However, we encourage the Board to consider financial statement user feedback regarding this question in determining whether additional disclosures may be beneficial for 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?

Yes, we support making the proposed amendments effective for annual reporting periods beginning after December 15, 2019 on a prospective basis. Given the nature of the proposed amendments, we also support allowing an entity to early adopt the proposed amendments as of the beginning of any reporting period for which financial statements have not been issued or made 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?

Yes, we support providing an unconditional one-time transition election allowing an entity within the scope of the proposed Update to prospectively adopt the amendments after the effective date without applying the guidance on preferability in Topic 250. This is consistent with the transition relief provided to private companies for other PCC 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 support making the proposed Update available on an ongoing basis for in-scope entities for the reasons described in BC 38 and 39 of the proposed Update.



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.

We believe that it may be impracticable to discontinue application of the alternative on a retrospective basis. This is supported by the guidance of ASC 250-10-45-9, which indicates that the effects of applying an accounting principle retrospectively are impracticable when conditions exist that either require assumptions about management's intent in a prior period that cannot be independently substantiated or require significant estimates of amounts and it is impossible to distinguish information about those estimates objectively without the use of hindsight. We believe both of these conditions may exist when attempting to evaluate interim goodwill triggering events on a retrospective basis..

After discontinuing application of the alternative, if an entity meets the scope in a future period, we believe re-adoption of the alternative should only be allowed after applying the guidance on preferability in Topic 250. After considering the guidance on preferability in Topic 250, if an eligible entity concludes the alternative is preferable, we believe re-adoption should be applied on a prospective basis, consistent with initial adoption of the alternative.