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January 20, 2021

VIA EMAIL TO: director@fasb.org

Technical Director
File Reference No. 2020-1100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-51116

Re: Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events* (the Proposal)

To Whom It May Concern:

Our firm, Financial Reporting Advisors, LLC, provides accounting and SEC reporting advisory services, litigation support services, and dispute resolution services. We specialize in applying generally accepted accounting principles to complex business transactions.

We are writing to provide comments on the recent proposal by the Financial Accounting Standards Board (FASB) that would permit nonpublic companies that do not prepare interim GAAP financial statements to elect an accounting policy to evaluate goodwill for impairment only at yearend (Topic 350).

We do not support the FASB's Proposal because the proposed guidance is premised on two principles that we find very troublesome:

- The amounts of income, assets and equity reported by a company depend on whether it prepares interim GAAP financial statements.
- An impairment loss for goodwill need not be recognized so long as the value of goodwill has recovered within the same annual period as the impairment.

Under these principles, the results of operations and financial position of two otherwise identical nonpublic companies would differ solely based on (a) the frequency with which they prepare GAAP financial statements and (b) their fiscal yearend.[1]

[1] Consider the fact pattern in which a significant market disruption occurs early in the first calendar quarter of the year. The probability of a subsequent economic recovery within the same fiscal year is essentially nil for a company with a March 31 yearend but reasonably possible for a company with a December 31 yearend.

We also believe that the FASB's approach adds to the already confusing number of accounting alternatives for goodwill that users, auditors and preparers of financial statements must identify and consider. This confusion is illustrated in the Appendix to this letter.

We are surprised by the FASB's decision to expedite this Proposal so that it can be adopted for calendar 2020 yearends. Not only is there "nothing new" about the accounting issue--nonpublic companies have been required to identify and evaluate mid-year triggering events for at least 25 years[2]--but the Board is already aggressively pursuing a comprehensive re-evaluation of goodwill that will provide ample opportunity to fix conceptual or practical problems with the impairment model.

An even more troubling aspect of the unusually rapid timeline for this project[3] is that it does not stem from a request from users for better information. It arises because some nonpublic companies want to ignore the significant economic downturn in the first half of 2020 because of improvements in the third and fourth quarter of the year.

If the Board believes that the "fundamental issue being highlighted is not solely related to the pandemic," [4] then the concerns that led the Board to draft the Proposal should be addressed concurrent with all the other fundamental issues associated with the topic of goodwill. The longstanding approach to evaluating triggering events is not so problematic or urgent that it merits the creation of more diversity in accounting.

It also makes no sense to us to rationalize the proposed guidance by arguing that users of nonpublic company financial statements "do not place a significant value on noncash charges like goodwill impairment."[5] That view argues for either an immediate or hyper-accelerated write off of goodwill so as to render an impairment analyses irrelevant. It is not a user perspective that supports requiring only those nonpublic companies that produce interim GAAP financial statements to evaluate the existence of triggering events that occur during the year. Why would a user who finds little value in an impairment charge make an exception for impairments recognized in interim periods?

And we see little logic to the conclusion that permitting companies to evaluate the existence of a triggering event only at yearend would create an alignment with annual reporting processes such as calculating debt covenants.[6] We see nothing in the existing rules that requires a goodwill analysis contemporaneous with the date of the triggering event. Companies that do not prepare interim GAAP financial statements routinely wait until yearend to analyze many of their balance sheet accounts. Further, while we agree that facts and circumstances at the annual reporting date are relevant to users,

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[2] In 1995, the Board issued FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* which required companies, including non-public companies, to "review long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable." The Board carried forward the use of triggering events for purposes of evaluating impairment into FASB Statement No. 142, *Goodwill and Other Intangible Assets*, in 2001. The Board endorsed the use of triggering events yet again when it simplified the accounting for goodwill by nonpublic companies in 2014.

[3] Elapsed time from the date the project was added to the agenda to the date comments on the exposure draft are due is 60 days in a period that includes three major holidays.

[4] Paragraph BC9 in the Proposal's Basis for Conclusions.

[5] Paragraph BC10 in the Proposal's Basis for Conclusions.

[6] Paragraph BC11 in the Proposal's Basis for Conclusions.

to conclude that yearend circumstances are “more relevant”[7] than those that occurred during the year requires one to believe that the balance sheet is more important than the income statement.[8]

We strongly encourage the FASB to fold this project into its reconsideration of goodwill. The problem that this Proposal attempts to address is neither novel nor urgent. We are aware of no factors or circumstances to suggest that companies are less capable of identifying and evaluating triggering events today than they have been over the past quarter century.[9]

More importantly, the solution the Proposal offers is, in a word, troublesome. Not only does the proposed guidance encourage nonpublic companies to refrain from preparing interim GAAP financial statements, it creates a situation in which the mere decision to prepare interim GAAP financial statements could significantly affect both income and equity. We find this outcome at least as objectionable as writing up an impaired long-lived asset to its previous cost basis if the value of the asset recovers before the end of the annual period in which the loss occurred.[10]

If you have any questions regarding our comments, please contact Scott Taub (312-345-9105), John Stewart (312-345-9104), or Amy Ripepi (312-345-9103).

Sincerely,

Financial Reporting Advisors, LLC

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7 Paragraph BC10 in the Proposal’s Basis for Conclusions.

8 As an aside, we note that GAAP already requires companies to consider facts and circumstances that exist at the end of an annual reporting period.

9 We are aware that some believe the Proposal represents a codification of existing practice by companies that do not prepare interim GAAP financial statements. If that were true, there would be no need for the FASB to provide an accounting election to codify a practice it finds acceptable. However, we believe the Proposal is likely to significantly change current practice. Rather than performing their qualitative assessment of a mid-year triggering event using judgments that may be shaded by hindsight, companies will be able to simply ignore triggering events that occur at any date other than yearend.

10 We are aware that interim period losses from declines in the net realizable value of inventory do not form a new cost basis until the end of the annual reporting period. We believe there are many reasons that this principle is appropriately unique to inventory. We would not encourage its application to long-lived assets. However, if the FASB believes a similar principle should be applied to long-lived assets, then the Proposal should be amended to require companies that prepare interim financial statements to reverse interim impairments of goodwill if the conditions that triggered the loss no longer exist at yearend.

Accounting Alternatives for Goodwill under US GAAP

Users, auditors, and preparers of nonpublic company financial statements currently encounter any one of six methods of accounting for goodwill:

1. **Baseline Approach** – Goodwill is an indefinite lived asset that is not amortized. Impairment is analyzed at the reporting unit level and is evaluated on an annual basis and between annual tests when a triggering event occurs. This is the approach required for public companies.

2. *Alternative #1* – Same as the baseline except that impairment is analyzed on an entity-wide basis.

3. *Alternative #2* – Goodwill is a finite lived asset that is amortized over a period not to exceed 10 years. Impairment is analyzed at the reporting unit level and is evaluated only when a triggering event occurs.

4. *Alternative #3* – Same as Alternative #2 except that impairment is analyzed on an entity-wide basis.

5. *Alternative #4* – Goodwill is a finite lived asset that includes (a) goodwill, (b) customer related intangibles and (c) noncompete agreements. It is amortized over a period not to exceed 10 years. Impairment is analyzed at the reporting unit level and is evaluated only when a triggering event occurs.

6. *Alternative #5* – Goodwill is a finite lived asset that includes (a) goodwill, (b) customer related intangibles and (c) noncompete agreements. It is amortized over a period not to exceed 10 years. Impairment is analyzed on an entity-wide basis and is evaluated only when a triggering event occurs.

Under the Proposal, users, auditors, and preparers of nonpublic company financial statements could encounter any one of twelve methods of accounting for goodwill:

1. **Baseline Approach** – Goodwill is an indefinite lived asset that is not amortized. Impairment is analyzed at the reporting unit level and is evaluated on an annual basis and between annual tests when a triggering event occurs. This is the approach required for public companies.

2. *Alternative #1* – Goodwill is an indefinite lived asset that is not amortized. Impairment is analyzed on an entity-wide basis and is evaluated on an annual basis and between annual tests when a triggering event occurs.

3. *Alternative #2** – Goodwill is an indefinite lived asset that is not amortized. Impairment is analyzed at the reporting unit level and is evaluated only at yearend.

4. *Alternative #3** – Goodwill is an indefinite lived asset that is not amortized. Impairment is analyzed on an entity-wide basis and is evaluated only at yearend.

5. *Alternative #4* – Goodwill is a finite lived asset that is amortized over a period not to exceed 10 years. Impairment is analyzed at the reporting unit level and is evaluated only when a triggering event occurs.

6. *Alternative #5* – Goodwill is a finite lived asset that is amortized over a period not to exceed 10 years. Impairment is analyzed on an entity-wide basis and is evaluated only when a triggering event occurs.

7. *Alternative #6** – Goodwill is a finite lived asset that is amortized over a period not to exceed 10 years. Impairment is analyzed at the reporting unit level and is evaluated only at yearend.

8. *Alternative #7** – Goodwill is a finite lived asset that is amortized over a period not to exceed 10 years. Impairment is analyzed on an entity-wide basis and is evaluated only at yearend.

9. *Alternative #8* – Goodwill is a finite lived asset that includes (a) goodwill, (b) customer related intangibles and (c) noncompete agreements. It is amortized over a period not to exceed 10 years. Impairment is analyzed at the reporting unit level and is evaluated only when a triggering event occurs.

10. *Alternative #9* – Goodwill is a finite lived asset that includes (a) goodwill, (b) customer related intangibles and (c) noncompete agreements. It that is amortized over a period not to exceed 10 years. Impairment is analyzed on an entity-wide basis and is evaluated only when a triggering event occurs.

11. *Alternative #10** – Goodwill is a finite lived asset that includes (a) goodwill, (b) customer related intangibles and (c) noncompete agreements. It is amortized over a period not to exceed 10 years. Impairment is analyzed at the reporting unit level and is evaluated only at yearend.

12. *Alternative #11** – Goodwill is a finite lived asset that includes (a) goodwill, (b) customer related intangibles and (c) noncompete agreements. It is amortized over a period not to exceed 10 years. Impairment is analyzed on an entity-wide basis and is evaluated only at yearend.

* This alternative is not available to a nonpublic company that prepares GAAP financial statements on an interim basis.