

May 20, 2011

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2011-180

Dear Ms. Cospers:

McGladrey & Pullen, LLP is pleased to comment on the Proposed Accounting Standards Update (ASU), *Testing Goodwill for Impairment* (the “proposed ASU”). Overall, we support the efforts of the Financial Accounting Standards Board (“FASB” or the “Board”) to simplify how an entity is required to test goodwill for impairment and believe in certain situations the proposed ASU will reduce overall costs and complexity compared with existing guidance while in other situations it will not. Our responses to certain of the discussion questions on which specific comment is sought and comments and suggestions on other matters in the proposed ASU are included below for your consideration.

Comments on Certain Discussion Questions

Question 1: Please describe the entity or individual responding to this request. For example:

- (a) Please indicate whether you primarily are a preparer, user, or auditor of financial statements or, if other, please specify.*
- (b) If you are a preparer of financial statements, please indicate whether your entity is public or nonpublic and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).*
- (c) If you are an auditor, please describe the size of our firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, nonpublic entities, or both.*
- (d) If you are a user of financial statements, please indicate in what capacity (for example, investor, analyst, or rating agency) and where in the capital structure you are most focused (for example, debt or equity).*

McGladrey & Pullen, LLP is a leading national CPA firm focused on serving the audit and accounting needs of both private and public mid-sized companies.

Question 4: For auditors, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why. Does your response differ based on whether the entity is public or nonpublic?

We believe that in certain situations, the proposed amendments will reduce overall costs and complexity compared with existing guidance for both public and nonpublic entities. For example, in

cases in which no events or circumstances included in the proposed ASU (or other adverse events or circumstances) have occurred or exist, costs and complexity will be reduced for those entities that would not have carried forward the detailed calculation of fair value from a prior year as they should be easily able to document and support that goodwill is not more likely than not impaired. Therefore, these entities will be able to forego step one of the goodwill impairment test. However, in the current economic environment, we believe these types of situations will likely be infrequent. We understand that the Board acknowledged as much in paragraph BC30 of the proposed ASU, noting that in an unfavorable economic environment, many entities may likely determine that they must calculate fair value under the first step of the test because it may be more likely than not that the fair value of a reporting unit is less than its carrying amount. However, we are concerned that in spite of this acknowledgement (which will not be added to the Accounting Standards Codification as it is included in the “Basis for Conclusions” of the proposed ASU), entities will assume that by virtue of issuing this proposed ASU now the Board’s view is that this qualitative evaluation will result in entities not having to perform the quantitative goodwill impairment test in many circumstances beyond what we believe will be the case. We recommend that the Board incorporate the content from paragraph BC30 of the proposed ASU into the section on “Amendments to the FASB Accounting Standards Codification[®]”.

In most situations there will be events or circumstances included in the proposed ASU (or other adverse events or circumstances) that have occurred or exist and the qualitative evaluation of whether goodwill is more likely than not impaired will necessarily be subjective and difficult to audit. In these scenarios, there could be a significant amount of costs incurred in order to document and support the conclusion resulting from this qualitative evaluation as well as to audit that conclusion. If goodwill is not more likely than not impaired as a result of this evaluation, whether the costs incurred will be less than those that would have been incurred to perform step one of the goodwill impairment test will depend on the particular set of facts and circumstances. We believe that in certain situations, the rigorous evaluation of the qualitative indicators that will be required along with the appropriate level of documentation could result in costs in excess of those that would have been incurred to perform step one of the goodwill impairment test. This is partially due to the fact that it often takes more time and effort to properly evaluate and document an issue when there is no quantitative analysis to rely on. If goodwill is more likely than not impaired as a result of this evaluation, which we expect may often occur in the current economic environment, the costs incurred in performing this qualitative evaluation will be incremental to those incurred under existing guidance as entities will still have to perform step one of the goodwill impairment test.

Question 6: Do you agree that the proposed examples of events and circumstances to be assessed are adequate? If not, what changes do you suggest?

We believe that the proposed examples of events and circumstances to be assessed are more comprehensive than those included in current U.S. GAAP. However, we believe there are several other items that should be added to proposed amendments at ASC 350-20-35-3C-e as follows:

- Plant closures
- Significant layoffs
- Significant asset dispositions

Furthermore, in regard to the proposed amendment at ASC 350-20-35-3C-g, “if applicable, a sustained decrease (both absolute and relative to its peers) in share price”, we think the reference to the share price relative to an entity’s peers should be removed. We believe that an entity’s sustained decrease in share price on an absolute basis is a factor indicating that the fair value of a reporting unit may be less than its carrying amount, regardless of whether its peers’ share prices have also been decreasing. We also believe that an additional circumstance that should be included is one in which the share price of an entity is less than its carrying amount.

In addition, we believe that a recent fair value calculation for a reporting unit that was not in excess of its carrying amount by a substantial margin should also be added as a circumstance that should be assessed. While the inverse of this is included in the proposed amendment at ASC 350-20-35-3F as a mitigating factor, we believe this should be included as an adverse circumstance as well. We also believe the Board should clarify what is meant by the reference to a “recent” fair value calculation and consider whether a significant time period since goodwill has been tested for impairment quantitatively would also be relevant when considering adverse events or circumstances.

Question 7: Do you agree that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear? If not, how can the guidance be improved?

We believe that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear. However, as noted in a prior response, we believe that in most situations the qualitative evaluation of whether goodwill is more likely than not impaired will necessarily be subjective and difficult to audit.

Question 8: Do you agree with the Board’s decision to make the proposed amendments applicable to both public entities and nonpublic entities? If not, please explain why.

We agree with the Board’s decision to make the proposed amendments applicable to both public and nonpublic entities as both may be able to reduce costs in certain situations as noted in our response to Question 4.

Question 9: Do you agree with the proposed effective date provisions? If not, please explain why.

We agree with the proposed effective date provisions and particularly support the allowance for early adoption. However, it is unclear to us whether early adoption will be allowed for an impairment test performed as of a date prior to finalization of the proposed ASU. For example, if the proposed ASU was finalized in August, would an entity that tests a reporting unit for goodwill impairment on July 1 be allowed to early adopt the proposed ASU? We believe the Board should clarify any limitations on early adoption.

Other Comments

Period of Qualitative Assessment

Under existing GAAP, when evaluating whether goodwill should be tested for impairment at an interim date, certain events or circumstances must be considered as noted at ASC 350-20-35-30. As there is currently a required annual quantitative test for goodwill impairment in most circumstances, it would seem that when evaluating those events or circumstances the time period of the evaluation would be the period since the last annual impairment test. Under the proposed ASU, it is not clear what time period should be considered when evaluating whether certain events have occurred or circumstances exist. That is, it is unclear whether the evaluation should be from the last quantitative test or the last qualitative test. For example, assume an entity tested goodwill for impairment as of April 1, 2012 using the qualitative test in the proposed ASU for the first time. Although there were several qualitative indicators of impairment, the entity determined it was not more likely than not that the fair value of the reporting unit was less than its carrying amount. When this entity tests for impairment as of April 1, 2013, we believe the guidance should be clarified to note whether it would only need to consider events and circumstances subsequent to April 1, 2012 (the previous qualitative test) or whether it would also need to consider events and circumstances between April 1, 2011 (previous quantitative test) and 2012. Our view in this example is that the evaluation should be performed for the time period between April 1, 2011 and April 1, 2013 (i.e.; the evaluation of whether certain events have occurred or circumstances exist should be for the time period from the previous quantitative test).

Testing Indefinite-Lived Intangible Assets for Impairment

We understand that the proposed ASU would not change the current guidance for testing indefinite-lived intangible assets for impairment as the FASB had not received similar concerns from preparers of financial statements about the cost and complexity of testing these assets for impairment. However, we believe that in certain cases there are significant costs and complexity involved in testing indefinite-lived intangible assets for impairment, albeit these cases are not as widespread as those for goodwill. With that said, if finalized, we believe the proposed ASU should also be applicable to indefinite-lived intangible assets. While the impairment testing model for indefinite-lived intangible assets would still be different from that for goodwill and other long-lived assets, this change would result in further alignment amongst the models. This is due to the fact that all three models would then be “trigger-based” (if elected for goodwill and indefinite-lived intangible assets). In other words, all three models would be aligned in that impairment testing would only be required if certain events occur or circumstances exist, which is already the existing model for finite-lived intangible assets.

Editorial Comments

Paragraph ASC 350-20-35-3A was one of the proposed amendments and describes more likely than not in parentheses as a likelihood of more than 50 percent. While we agree with the description, it is unclear to us why it was added. Our understanding is that this test will be performed on a qualitative basis rather than on a quantitative basis. We are concerned that including a numerical description could cause preparers or auditors to believe there is also a quantitative aspect to this test, similar to that described in Examples 6 and 7 of ASC 740-10-55 in evaluating uncertain tax positions based on cumulative probabilities. We recommend removing the parenthetical description if this was not the FASB’s intention.

In addition, we believe the following editorial changes to the proposed ASU (noted in bold) should be made:

“350-20-35-3 An entity may first assess qualitative factors as described in paragraphs 350-20-35-3A through 35-3G, to determine whether it is necessary to perform the **first step of the** two-step impairment test discussed in paragraphs 350-20-35-4 through 35-19.”

“350-20-35-3C-f. Events affecting a reporting unit such as a **significant** change in the carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a **significant** portion of, a reporting unit...”

We would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day (563-888-4017) or Brian Marshall (203-312-9329).

Sincerely,



McGladrey & Pullen, LLP