



October 7, 2019

Shayne Kuhaneck  
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401 Merritt 7  
PO Box 5116  
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**Re: FASB July 9, 2019 Invitation to Comment (ITC), Identifiable Intangible Assets and Subsequent Accounting for Goodwill [File Reference No. 2019-720]**

Dear Mr. Kuhaneck:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board's efforts with this ITC to follow up on previous outreach related to identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill. TIC believes the simplifications offered to private companies related to goodwill and other intangible assets in ASU 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)* and 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)* have been favorably received and noted as cutting cost and complexity without diminishing usefulness of the financial reporting.

If changes are made to the Codification for public business entities (PBEs) related to identifiable intangible assets and subsequent accounting for goodwill that differ significantly from the private company and not-for-profit alternatives (hereinafter referred to solely as the private company alternative) available today and such differences would not be viewed favorably by private companies and not-for-profit entities, TIC believes there should continue to be a private company alternative.

Since TIC's primary focus is on firms that provide services to private companies, TIC's comments in this letter mainly are focused on the ED questions and provisions related to private companies and, therefore, not every question in the ITC has a response from TIC.

**Question 1:** *What is goodwill, or in your experience what does goodwill mainly represent?*

TIC believes that goodwill may represent different elements for each acquisition depending on the industry and parties to the transaction.

In general, TIC believes goodwill is representative of one of the following three things or possibly some combination of these:

- A buyer paid too much
- In-place workforce
- Representative of future economic benefit that can be generated by the net assets acquired in a transaction but not separately identified.

**Question 2:** *Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits.*

Based on the feedback summarized in the ITC as well as feedback from private company stakeholders after adoption of the PCC alternative, TIC does not believe that the costs of the current goodwill impairment model justify the benefits.

As indicated in paragraph 2 on page 7 of the ITC, some preparers and auditors indicated that the impairment model imposes significant cost even after implementing the optional qualitative screen and removing Step 2 of the impairment test.

User feedback on the decision-usefulness of a goodwill impairment charge is mixed as described in paragraphs 3 and 4 of page 7. The ITC also indicates the following:

*“Those users would prefer to retain the existing impairment model because they believe impairments can confirm the existence of an underperforming acquisition, which they view as useful information.”*

In some cases, TIC believes that impairments can confirm the existence of an underperforming acquisition while, in other cases it may not be the case due to integration of reporting units and the shielding effect due to a reporting unit's fair value, for example, a reporting unit's unrecorded fair value gains from holding property or the existence of unrecognized intangible assets such as a brand. As a result, TIC questions whether the costs of the current goodwill impairment model justify its benefits.

Private company preparers and users have indicated that the PCC alternative to amortize goodwill and simplify impairment considerations has reduced cost without diminishing the value of the information that is provided in the financial statements.

**Question 3:** *On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.*

TIC supports goodwill amortization with trigger-based impairment testing due to positive feedback from stakeholders on the PCC alternative. In the basis for conclusions (BC) for the private company alternative in ASU 2014-02, there was acknowledgment that there is mixed feedback from users of financial statements about the relevance of information received from goodwill impairment or amortization. Because the relevance of this information is unclear, the PCC provided a simplification to reduce cost and complexity under the private company decision making framework provisions. Paragraph 1.4 of the PCDMF indicates:

- “If the Board or PCC determine that
- a. The information is not relevant or
  - b. the information is relevant but is overly costly or complex to present an alternative should be considered.”

The relevance of the information provided by goodwill impairment could not be clearly determined, so the decision to pursue the PCC alternative was based on reducing cost and complexity. This was due to feedback that the impairment assessment was overly complex and costly to present. In BC 5, there is acknowledgement that similar issues exist for public entities and that a project on the overall guidance for goodwill was added to the FASB agenda. However, immediate relief was provided to private entities through the PCC.

In the feedback from users of the financial statements in this ITC, there continues to be mixed feedback on the relevance of the information provided by impairment or amortization of goodwill.

Due to the lack of clear consensus discussed in the ITC on what goodwill represents and the relevance of an impairment charge or amortization of goodwill in the public and private company preparer and user population, there may be merit to considering extending the PCC simplification to all entities.

**Question 4:** *If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you did not select certain characteristics.*

- a. A default period
- b. A cap (or maximum) on the amortization period
- c. A floor (or minimum) on the amortization period
- d. Justification of an alternative amortization period other than a default period

- e. *Amortization based on the useful life of the primary identifiable asset acquired*
- f. *Amortization based on the weighted-average useful lives of identifiable asset(s) acquired.*
- g. *Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).*

As discussed in our response to Question 2, it does not appear that the current impairment model is providing decision-useful information to users of financial statements. It also appears that an amortization model would provide questionable benefit to the users of financial statements. As such, TIC believes simplification and cost reduction is the best path forward. Therefore, TIC believes a simple approach (such as the PCC alternative) to determine an amortization model is most appropriate.

If the resulting amortization model for goodwill is significantly more complicated than the PCC alternative, TIC would like the private company alternative to remain as an option, including the default 10-year amortization period with trigger-based impairment and the option to test impairment at the entity level.

TIC notes that for their clients that have utilized the PCC alternative, it has resulted in cost savings and simplification for private companies. In situations whereby private company clients have not elected the PCC alternative on goodwill, it is typically due to an exit strategy with plans to go public.

**Question 5:** *Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period? Please indicate yes or no and explain.*

Refer to our response in Question 4.

**Question 6:** *Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.*

Refer to our response to question 4.

**Question 7:** *Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2017-04 reduce the usefulness of financial reporting information for users? Please explain.*

For private companies that have elected the amortization of goodwill, feedback from preparers and auditors is that costs have been reduced. Additionally, there has been no feedback TIC is aware of that indicates the amendments in ASU 2017-04 reduce usefulness of the financial reporting information.

**Question 8:** *Do the amendments in Update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2011-08 reduce the usefulness of financial reporting information for users? Please explain and describe any improvements you would recommend to the qualitative screen.*

The use of the qualitative screen has been a favorable simplification for preparers. Feedback among TIC members is that the qualitative screen has reduced cost and complexity in performing the goodwill impairment test without reducing the usefulness of financial reporting information. However, TIC is aware that some preparers have found that the qualitative screen is difficult and costly to apply and, for auditors, it can create complexities in obtaining sufficient, appropriate audit evidence. In some cases, preparers have noted that it is easier to apply the quantitative analysis.

In general, TIC supports amortization of goodwill with a trigger-based impairment test rather than retaining the current impairment model.

**Question 9:** *Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually? Please explain why in your response.*

Based on outreach described in the ITC, TIC does not support the current impairment model. If the current “impairment only” model (that is, with no amortization permitted) is retained, TIC would oppose removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually. TIC believes that any cost reduction has already been achieved by introduction of the qualitative screen under ASU 2011-08.

**Question 10:** *Relative to the current impairment model, how much do you support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)? Please explain why in your response.*

TIC supports testing goodwill impairment for private companies at the entity level.

TIC recommends further outreach be performed to determine whether impairment testing at the entity level or at a level other than the reporting unit is appropriate for public companies.

**Question 11:** *What other changes to the impairment test could the Board consider? Please be as specific as possible.*

TIC recommends that the FASB consider raising the level of performing the goodwill impairment test from the reporting unit level to the operating segment level. TIC believes the concept of the reporting unit creates unnecessary complexity.

**Question 12:** *The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering “yes” or “no” to the questions in the table below. Please explain your response.*

TIC supports option b, an amortization model combined with an impairment assessment only upon a triggering event. TIC believes the impairment test applied by private companies also could work well for PBEs.

**Questions 13-15:** TIC is very appreciative of the PCC alternative provided for certain recognized intangible assets. TIC believes that the PCC alternative cannot increase cost, and in some cases, the ability to subsume certain customer related intangibles and non-compete agreements into goodwill has marginally reduced cost and complexity in accounting for business acquisitions.

**Question 16:** *To gauge the market activity, are you aware of instances in which any recognized intangible assets are sold outside a business acquisition? If so, how often does this occur? Please explain.*

TIC notes that this may occur in certain specific industries and with larger private companies. For example, in the medical and pharmaceutical industry, patents may be sold if another entity has a better chance to monetize it.

**Question 17:** *Of the possible approaches presented, which would you support on a cost-benefit basis? Please rank the approaches (1 representing your most preferable approach) and explain why you may not have selected certain approaches.*

- a. *Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill*
- b. *Approach 2: Apply a Principles-Based Criterion for Intangible Assets*
- c. *Approach 3: Subsume All Intangible Assets into Goodwill*
- d. *Approach 4: Do Not Amend the Existing Guidance.*

TIC would prefer Approach 1, whereby the guidance for private companies and PBEs would be aligned. If that is not acceptable to the Board, TIC would suggest that the existing guidance be retained and follow approach 4. TIC does not support Approach 2 as this would result in further complications and differences between public and private companies and may not be well-received by users of financial statements.

**Question 20:** *What is your assessment of the incremental costs and benefits of disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss?*

Related to questions 20-23, TIC would recommend that disclosures be considered after a decision is made on the identifiable intangible assets and subsequent accounting for goodwill. TIC believes

it is premature to comment on required disclosures at this time as the required level and types of disclosures typically are dependent on the recognition and measurement of items in the financial statements and required assessments to make those determinations.

**Question 28:** *Do you have any comments related to the Other Topics for Consideration Section or other general comments?*

TIC would like to request that FASB also consider the July 2017 ASC 740 Overview Discussion Document for a TIC/FASB/PCC Meeting Developed by an ad hoc group of ASC 740 experts and reviewed by TIC on deductible and non-deductible goodwill and take up that issue relative to this discussion on goodwill.

**Question 29:** *Would you be interested and able to participate in the roundtable?*

TIC would be happy to participate in the roundtable related to this ITC.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek", with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair  
On Behalf of the PCPS Technical Issues Committee