



January 20, 2021

Hillary Salo
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: December 21, 2020 Proposed Accounting Standards Update, Intangibles—Goodwill and Other: Accounting Alternative for Evaluating Triggering Events [Project No. 2020-1100]

Dear Ms. Salo:

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.

First and foremost, TIC appreciates the Board's efforts to address the goodwill impairment triggering event evaluation which has been put to the test in 2020 due to the pandemic. TIC believes that the alternative, if properly scoped, could provide much-needed relief to private companies and not-for-profits (NFPs) at a time when financial burdens are plenty and many are struggling with day-to-day operations and remote working during the pandemic.

TIC is extremely concerned about the scope of the ED. TIC believes very few private companies and NFPs would be eligible to apply this alternative as drafted because those entities submit some level of financial information to lenders on an interim basis in order to comply with debt covenants or other requirements. TIC has outlined this concern in further detail in our response to question 2.

The following are TIC's detailed responses to each of the questions posed in the ED. TIC's comments in this letter mainly are focused on the ED questions and provisions related to issues impacting private company and NFP client bases and, therefore, we do not comment on aspects of goodwill triggering events evaluation for public business entities (PBEs) in this letter.

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?*

TIC fully supports relief for private companies and NFPs related to evaluating goodwill impairment triggering events only as of the annual reporting date, and we have expressed our reasons for support of this relief in our September 22 meetings with the PCC and the FASB.

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?*

TIC believes the scope of the amendments in this proposed Update should not depend on the frequency of a private company or NFP's financial reporting. As acknowledged in BC 10 of the proposed Update, the Board does not anticipate a loss of decision-useful information to users because feedback has indicated that users of private company and NFP financial statements do not place a significant value on noncash charges like goodwill impairment.

BC 10 also indicates that users of private company and NFP financial statements have stated their focus is on cash flows and liquidity and solvency metrics, while users of NFP financial statements also focus on the organization's service efforts and whether the organization is achieving its mission. While unclear, it does not appear that there was direct or indirect feedback that would suggest the frequency of financial reporting would change a user's view of the relevance of the current goodwill impairment.

Furthermore, paragraph BC7 of the Private Company Decision-Making Framework (PCDMF) indicates that the Board and PCC should focus on user-relevance when considering whether a recognition and measurement difference should be provided:

“...the Board and the PCC should evaluate and prioritize different considerations and stakeholder needs by emphasizing that it is most important to focus on providing relevant information to financial statement users. This appendix explains that the Board and the PCC should place a significant, albeit lesser, focus on considerations about the cost and complexity of providing that relevant information.”

Paragraph 1.6 of the PCDMF addresses user-relevance considerations and does not list the frequency of financial reporting as a potential consideration. Coincidentally, BC 14 of the PCDMF, which was based on direct feedback, indicates the following:

“In addition to cash and cash flow from operations available to service debt, lenders focus on a borrower's tangible net worth that is eligible to support a loan. Therefore, lenders evaluate accounts such as trade receivables, inventories, fixed assets, accounts payable,

and other liabilities, **but they most often exclude goodwill and other intangible assets from their quantitative analyses. [bolded for emphasis]**”

Yet the discussion in paragraph BC 23 in the ED, which supports the current scope, appears to focus more on cost and complexity and less on user-relevance:

“Additionally, those entities are expected to have a greater ability to prepare financial information as of a triggering event date because they already have the systems and processes in place to report interim financial information.”

As noted in paragraph DF 13 of the PCDMF, private company stakeholders often require additional time to implement and discuss potential changes. Without any changes to the current scope, private companies and NFPs will need to have discussions with lenders about their understanding of what is expected with regards to submission of interim financial information and the impact on loan covenants. These discussions may not happen in a timeframe that allows private companies and NFPs to take advantage of this relief (for years ending in 2020), especially considering interim statements have already been filed during the year for entities with interim reporting requirements and a re-evaluation of already filed information may need to occur.

While not ideal, TIC would be more supportive of an alternative view (over the current proposal) that would sunset within a couple of years if it meant the alternative would be expanded to private companies and NFPs that submit interim financial statements. Inclusion of a sunset provision could allow additional time to perform outreach to private companies, NFPs, and users of the financial statements to better understand interim reporting requirements, whether interim reports are required to comply with U.S. GAAP, and whether the inclusion of potential goodwill adjustments in interim reporting is decision useful information.

TIC believes that, as written, almost no private company and NFP in its client base would be able to elect the alternative because debt agreements require reporting, on some level, of interim financial information to comply with debt covenants and interim reporting requirements.

TIC does not believe it was the Board’s intent to prevent so many entities from taking advantage of this alternative. We hope the scope can be amended to allow more private companies and NFPs with a calendar year reporting date to adopt this much needed simplification and relief.

TIC also believes that the ED as currently written could result in significant diversity in practice depending on how private companies and NFPs interpret whether interim financial information submitted to a lender is in accordance with U.S. GAAP. For example, some debt agreements provide language allowing for the exclusion of normal year-end adjustments in the required interim reporting. An entity may interpret this to mean they still would fall under the proposed scope when omitting an evaluation of a goodwill triggering event in the interim where another may not interpret a provision such as this in this manner.

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?*

TIC supports permitting an entity to evaluate goodwill impairment triggering events as of the interim reporting date rather than monitoring for triggering events throughout the interim period and believes this would be more consistent with the objective of the proposed private company and NFP alternative in this ED.

TIC believes that the triggering event evaluation should be consistent with an entity's reporting requirements, which for most public companies would be on an interim basis, and for many private companies and NFPs would be their annual reporting date. However, TIC does not want this expanded scope request to delay relief for private company and NFPs.

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.*

Although TIC would be supportive of expanding to other assets that are subject to triggering event evaluations, TIC would not want that project to delay the issuance of this current alternative as TIC would like as many private companies and NFPs to take advantage of the goodwill relief as soon as possible.

However, TIC also understands and appreciates the Board's views in BC 30 that users of private company and NFP financial statements find information about those types of intangible assets and long-lived assets to be of greater relevance than that of goodwill. For example, property, plant, and equipment is included in the calculation of tangible net worth, whereas goodwill is generally excluded. For that reason, TIC appreciates why the Board might decide not to expand the alternative beyond goodwill. Perhaps the Board can perform additional outreach to private company and NFP financial statement users to determine how much analysis is performed on other assets subject to triggering event evaluations prior to deciding whether to expand this alternative.

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

Other than TIC's concerns about the scope addressed in our response to question 2, TIC believes the amendments are operable.

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?*

TIC believes the existing disclosure requirements in Topic 235 and Subtopic 350-20 are sufficient and cannot propose any additional disclosures that 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?*

TIC believes that as long as (1) early adoption is permitted and (2) an unconditional one-time transition election permitted, the effective date for annual reporting periods beginning after December 15, 2019 is appropriate.

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, TIC agrees with the proposed transition method, including allowing a one-time transition election related to preferability as this would be consistent with existing current private company accounting 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.*

TIC agrees the proposed amendments should be available on an ongoing basis. However, TIC would also support a sunset provision of this alternative while the Board works on the larger simplification project *if* the scope is expanded as requested in our response. The alternative results in an important simplification for private and NFP entities.

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.*

Yes, TIC believes that application of this alternative should be consistent with the existing private company accounting alternatives with regard to falling in and out of scope over time or making changes to adoption of the alternative over time.

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