

October 29, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-720

Dear Mr. Kuhaneck,

This letter is being submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or "the Board") Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*.

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI made up of 45 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing approximately \$9.6 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the SEC, FASB, and PCAOB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

CCR appreciates the Board's efforts to obtain input from stakeholders on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets. CCR has certain suggestions regarding simplifying the current goodwill model. As it relates to the questions around accounting for intangible assets, CCR does not support making any changes to the accounting for certain identifiable intangible assets in a business combination. The recognition and measurement of goodwill is a complex matter and stakeholders have many valid preferences. Within CCR we were unable to reach consensus on one preferred goodwill model. Below we outline certain goodwill models that had varying levels of support among CCR and provide the suggestions for simplification that did have consensus.

Simplification of Recognition and Measurement of Goodwill Impairment

CCR believes that the recent simplifications to the goodwill impairment test including the removal of Step 2 and the addition of the optional qualitative screen have alleviated some of the burden of the current goodwill model. However, there are additional opportunities for simplification of the current model and the recommendations below could provide for further simplification and reduction of time and cost. CCR suggests that the Board consider exploring the requirement to test goodwill at the reportable segment level rather than the reporting unit level and remove annual impairment testing.

Testing Goodwill at the Segment Level

We support the Board exploring the requirement to test goodwill for impairment at the reportable segment level rather than the reporting unit level as this would align with an external reporting structure. This approach is also consistent with the management view and the way in which the chief operating decision maker (CODM) evaluates and makes resource allocation decisions. We believe that allowing companies to test goodwill at the reportable segment level would provide significant cost savings as the effort required to test at the reporting unit level is particularly time-consuming and costly. As companies reorganize their operations and divisions, reporting units are commonly impacted. Testing goodwill at the reporting unit requires companies to realign their systems after each reorganization to create standalone reporting unit financial projections and financial statements that may not be used for any purpose beyond impairment testing. Additionally, these reorganizations require companies to reallocate goodwill balances to reporting units based on relative fair values which requires long-term cash flow projections to support valuations, and the corresponding costs to build those models and valuations. If the Board were to require testing at the reportable segment level these costs would be mitigated. We also do not believe that the information provided to users through impairment at the reportable segment level would be less decision-useful than what is currently provided.

Testing Goodwill Only Upon Triggering Events

We suggest that the FASB explore removing the requirement to test goodwill annually and instead only require companies to test goodwill upon triggering events as a way to simplify the current model. Goodwill impairment tests are operationally burdensome and very costly and typically do not result in an impact unless there has been a fundamental change (which typically meets the criteria of a triggering event). A triggering event requirement would decrease the operational burden while not decreasing the decision-usefulness of the information provided to users. When exploring this simplification, we encourage the FASB to conduct outreach and explore a triggering event model that would alleviate the operational burden, rather than adding more subjectivity and documentation.

Changing the Recognition of Intangible Assets

CCR does not believe the Board should make any changes to the current model for recognizing intangibles in a business combination. While we understand that subsuming certain intangible assets into goodwill may lower costs for some preparers, we do not believe it would be appropriate to subsume intangible assets into goodwill such as noncompete agreements and certain customer-related intangibles, as we believe those intangible assets provide separate benefits from goodwill. For example, customer-related intangibles represent the value of the current customers a company is receiving at the time of an acquisition, but goodwill relates to the future benefit of gaining new customers as a result of the acquisition. While we do not support any changes to the current model for recognizing intangibles in a business combination, consistent with our views expressed in the prior paragraph about goodwill, we would support the Board exploring eliminating the requirement to test indefinite lived intangibles for impairment annually and only require such testing upon triggering events.

Furthermore, the amount of financial resources committed in business combinations is substantial and investors are rightfully interested in the value derived from these capital outlays, including all the assets acquired in the combination. The definition of identifiable intangible assets has been sufficiently tested in practice and the methods for valuing these assets are largely in the mainstream of financial reporting. For this reason and those mentioned above, we support the current accounting model for separately identifiable intangible assets.

Recognition and Measurement of Goodwill Models

As mentioned above, the member companies of CCR have diverging views regarding a preferred model for recognizing and measuring goodwill. The models listed below have varying levels of support within CCR.

1. Amortization with impairment testing only upon triggering events.
2. No changes to the current model.
3. Current recognition and measurement model, with impairment testing only upon triggering events (no amortization).
4. Direct write-off of goodwill to OCI.
5. Amortization only, with no impairment testing.

Amortization with Impairment Testing Only Upon Triggering Events

The companies that support amortizing goodwill with impairment testing only upon triggering events believe that this model would significantly decrease the time, cost, and resource burden of the current goodwill impairment model. They also believe that amortizing goodwill best represents the economics of goodwill because the benefits of business combinations generally decline over time.

These companies believe that the costs of hiring external valuation experts or developing internal forecasts and documenting the related assumptions are significant and outweigh the benefits. In addition to the monetary costs, acquisitive companies may spend hundreds of hours on goodwill impairment testing annually. For example, during fiscal year 2019, one CCR company spent nearly 1,000 hours on impairment testing. The companies in favor of amortization with impairment testing upon triggers believe that impairment testing documentation, manual allocations and adjustments, and additional internal control assessment require considerable time that could be spent on more strategic or value-driving activities for the company. Annual impairment testing also significantly increases the scope of work required by the auditors in both auditing the calculations and additional control testing when goodwill is material. These companies believe there is still value in impairment testing when a triggering event has occurred and there is reason to believe goodwill may be impaired. However, the resources and costs necessary to test annually far exceed the benefits.

As discussed above, the companies that support this model believe that goodwill amortization with impairment testing upon a triggering event would involve much less cost and effort for companies without sacrificing decision-useful information for users. Amortization of goodwill will likely lead to fewer impairments, as the carrying value of the goodwill will decrease each year, making it less likely that the carrying value of goodwill exceeds its fair value. Amortization would also decrease the magnitude of impairments when they do occur, which would lower volatility in financial statements. These companies believe that without amortization, the current impairment model creates a cliff event wherein there is either, no impairment or a very large impairment charge, neither of which best reflects the activities of the period the impairment is recorded.

In addition to the cost-benefit analysis, these companies believe that amortizing goodwill with impairment testing upon a triggering event better reflects the economics of a business combination and the resulting goodwill. Generally, companies expect to receive benefits from goodwill over time. This period of benefit is often difficult to precisely quantify and varies depending on the specific transaction and associated synergies. The companies that support this approach believe that an amortization model appropriately allows companies to reasonably allocate the cost of goodwill over the period they are receiving its benefits. Additionally, impairment testing upon a triggering event would ensure that if there is a substantial decrease in the value of goodwill, it would be reflected independent of the amortization through an impairment charge. The companies that support this model believe it will more accurately reflect the value of goodwill, rather than only expensing large amounts of goodwill infrequently following impairment testing under the current model.

No Changes to the Current Model

The companies that support the current model believe changing the model and introducing a requirement to amortize goodwill would have unintended consequences such as increased non-GAAP measures and undesirable effects on financial metrics. These companies believe that the current model is well understood and does not

cause user confusion. Although a change may result in some operational efficiency, these companies do not believe that changes to the current model would provide for increased decision-useful information.

Companies that support retaining the current model believe that the current model provides users with relevant and transparent information about the performance of a reporting unit compared to expectations for that unit when originally acquired. These companies believe that the current goodwill model provides users with insight on management's ability to integrate an acquired entity into its existing business and therefore holds management accountable for its decisions regarding the acquired business. Furthermore, these companies do not believe there are adequate reasons to make changes and any decrease in costs provided by an amortization model would not outweigh the unintended consequences, as discussed below.

Companies that support the current model also believe making any changes would have negative consequences to stakeholders. Many companies currently exclude goodwill impairment charges through non-GAAP measures and believe that if companies are required to amortize goodwill, they will similarly exclude this amortization through non-GAAP measures each period. As such, these companies are concerned that amortization would lead to an increase in non-GAAP measures. They believe amortization would have adverse effects on GAAP earnings or EPS, total assets and equity, and important profitability and efficiency metrics. Each of these measures impact debt covenants, regulatory and rating agency analysis and capital requirements, and analyst valuations and expectations. Furthermore, if the amortization charge is largely excluded as a non-GAAP measure and analysts ignore it, this suggests that the amortization charge is not decision-useful and not relevant to users of the financial statements. Some believe that reductions in reported total assets would have ramifications to the identification of a company's significant subsidiaries, determination of categories for interim balance sheets as determined by a total asset test, determination of reportable segments under ASC 280 and assessment of materiality. Finally, some believe the addition of an amortization model may cause marketplace disruption, specifically in the U.S. mergers and acquisitions (M&A) market and will result in unintended consequences to deal dynamics, structuring and pricing.

The companies that support the current goodwill model have an opposing view of the economics of goodwill to those companies that support an amortization model and believe amortizing goodwill is not consistent with the economics. Specifically, they do not believe that goodwill is a wasting asset. They believe the main drivers and highest value items embedded within goodwill do not have a finite life, such as the reputation value of a targeted company, the synergistic value of combining the combined companies' products, workforce and other factors. These companies believe these components of goodwill are generally expected to provide benefits to the combined entity into perpetuity and an amortization model will not faithfully represent the economic reality and the ongoing economic benefits resulting from the goodwill.

Impairment Model with Testing Upon Triggering Only, No Amortization

The companies that support changing the current model such that impairment is only assessed and measured upon a triggering event believe the annual testing requirement is operationally burdensome and costly (as explained above). Annual testing requires increased external and internal personnel costs, significant effort from employees and auditors, and increased internal control requirements. The companies that support this model believe that changing to an amortization model will have unintended consequences such as increased non-GAAP measures and adverse effects on financial metrics that impact debt covenants and analyst valuations and expectations. In addition, the companies that support this model do not believe goodwill is a wasting asset and believe that an amortization model does not align with the economics of goodwill. They believe that the accounting for the recognition and measurement of goodwill should be based on what they believe are the main drivers and the highest value items embedded in goodwill. These are items such as the reputation value of a targeted company, the synergistic value of combining the combined companies' products, workforce and other factors which do not have finite lives and therefore should not be amortized.

Direct Write-Off to OCI

The companies that support the direct write-off of goodwill to Other Comprehensive Income (OCI) believe goodwill fails to meet the definition of a productive asset. Further, they believe that any amortization, impairment, or write-off of goodwill would be disregarded by financial statement users. Although an amortization model would be operationally easier for preparers, these companies believe that amortization of goodwill would lead to increased non-GAAP measures as many preparers will remove amortization expense from its core results. They also believe that a goodwill model that includes impairment testing and amortization would not reduce the operational burden enough as companies would still be required to prepare cash flow forecasts, determine discount rates and provide detailed documentation to satisfy the auditors. These companies believe that because investors do not find the amortization, impairment, or write-off of goodwill decision-useful, the Board should require the goodwill recognition and measurement model that is most cost-effective. They believe a direct write-off would sufficiently eliminate the burden and cost for preparers and avoid the unintended consequences such as increased non-GAAP measures and adverse effects on financial metrics that impact debt covenants and analyst valuations and expectations.

Amortization Only

The companies that support amortizing goodwill with no impairment testing believe that impairment charges distract from the actual health of the business while the testing is significantly burdensome and costly for preparers, as described above. They believe it is clear most analysts and users ignore goodwill impairment charges; those in favor of an amortization only model believe impairment charges simply create headlines and can distract from other metrics and indicators that truly demonstrate a company's performance. They do not

believe that the current goodwill model provides decision-useful information and that the costs outweigh any benefits.

Other Models

We acknowledge there may be other valid models for the recognition and measurement of goodwill that are not mentioned in the ITC. Given the diversity of views and the strong arguments for the various alternatives, if the FASB decides to continue this project, we encourage the FASB to explore a variety of alternatives for the recognition and measurement of goodwill. For example, another possible model the FASB could explore is amortizing goodwill to OCI. Some companies on CCR believe the nature of goodwill, as a residual measure that represents the difference between the fair value of the enterprise and its underlying assets and liabilities, is similar to equity. As such amortization of this residual to equity deserves further study. These companies also believe amortization to OCI would eliminate much of the concerns about amortization related to increasing non-GAAP measures and adversely impacting financial metrics, while at the same time decreasing the current burden and cost of the goodwill impairment tests. Another model the FASB may consider is recording goodwill in OCI and not testing for impairment in such a way that historical goodwill can be tracked while sufficiently reducing the operational burden of the current goodwill model. This model would also alleviate much of the concerns about increased non-GAAP measures and impacts to financial metrics, as the goodwill balance would not be amortized.

Conclusion

CCR appreciates the Board's effort to obtain input from stakeholders on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets. We stand ready to assist the FASB in this effort.

Sincerely,

Prat Bhatt

Prat Bhatt
Chairman, Committee on Corporate Reporting
Financial Executives International