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October 3, 2019

Via email to director@fasb.org

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

Re: Identifiable Intangible Assets and Subsequent Accounting for Goodwill (File Reference No. 2019-720)

Dear Mr. Kuhaneck:

We are pleased to provide comments on the Board's project for certain identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill.

We have mixed observations on the costs and benefits associated with the current impairment model for goodwill, as contemplated in the first section of the goodwill discussion paper. Proponents of the current impairment model note that goodwill is comprised of synergies that help a company maintain its operations as a going concern, which do not have a finite life, and therefore should be regularly assessed for impairment. Conversely, there are costs and subjectivity in applying the current impairment model. This is evident in the requirement to identify reporting units, assign goodwill to them, and subsequently assess their value through impairment testing. This involves significant judgment by management. Further, the audit and regulatory process imposes costs to assess the reasonableness of those judgments.

As the FASB staff and Board solicit input on this topic, we would support further consideration of several potential alternatives:

1. A goodwill amortization model that maintains an annual assessment for impairment. In this case, the amortization period would be based on management's reasonable estimate, reflecting the view that the cost of an acquisition should be allocated to the periods it is expected to benefit the combined company. Given the significance of goodwill for some companies, we believe there are benefits to maintaining the rigor inherent in the required annual assessments, especially if the amortization period is relatively long. While we acknowledge that this approach would not result in immediate cost savings, we believe the ongoing cost of impairment testing would diminish over time for most companies as goodwill is amortized to zero.

2. An amortization model with impairment testing based on triggering events. Likewise, in that scenario, the amortization period would still be based on management's reasonable estimate, reflecting the view that the cost of an acquisition should be allocated to the periods it is expected

to benefit the combined company; however, the frequency of impairment assessments would depend on significant events that raise questions as to its recoverability (triggering events).

3. As an alternative approach to either of the above goodwill amortization models, the Board might consider keeping the current impairment model while requiring the separation of assembled workforce and other elements that may have shorter periods of benefit from goodwill, which would decrease the overall balance of goodwill to include mainly those synergies that truly have an indefinite life. That is, by narrowing the components of goodwill, the costs associated with applying the current impairment model may be reduced. While this approach would increase the number of intangible assets recognized in a business combination, we do not believe that it would significantly increase costs as those items are typically already valued for purposes of determining a contributory asset charge and generally supporting the value of goodwill. We note that this approach would also have the benefit of reducing the number of differences between accounting for business combinations and asset acquisitions, as assembled workforce is an example of an intangible asset that is separately recognized in an asset acquisition but not in a business combination.

While there may be several different paths forward, we are optimistic that there are opportunities to reduce costs, while preserving useful information in the financial statements.

In the second section, we believe subsuming certain recognized intangible assets into goodwill would create limited, if any, cost savings. Further, these intangible assets typically have finite lives that vary from that of the goodwill. As such, we generally oppose subsuming these intangible assets into goodwill.

For the third section, we suggest looking to users of the financial statements on the need for enhancing the current disclosures about goodwill and certain intangible assets. That said, we believe additional disclosures of the significant factors considered to estimate the life of goodwill would be needed to supplement an amortization model based on management's judgment, to the extent the Board pursues that path.

With respect to section four, we note that providing companies with options on the accounting treatment for goodwill and certain intangible assets creates noncomparability in the marketplace which leads to increased costs for investors and users of the financial statements. Additionally, we do not believe that it would be beneficial to users of financial statements to recognize a deferred tax liability when the book basis of goodwill exceeds the tax basis of goodwill and would further diverge the accounting for income taxes under US GAAP compared to IFRS.

Our responses to the Board's specific questions are provided in Appendix A to this letter.

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We would be pleased to discuss our comments with the FASB staff and participate in the future roundtable discussion of this topic as the project moves forward. Please direct questions to Adam Brown at (214) 665-0673 or Angela Newell at (214) 689-5669.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix A

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

We believe that the description from the FASB Master Glossary and the main components identified in FASB Statement No. 141 (revised 2007), *Business Combinations,* reasonably depicts the concept of goodwill. However, we note that the exact composition of goodwill will differ, sometimes dramatically, between industries and individual acquisitions, and thus depends on the specific facts and circumstances.

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.

Generally, we observe that the benefits associated with the current impairment model are qualitative in nature, such as the confirmatory value of an impairment charge that typically follows indicators of deterioration in an acquired business and/or its related industry. The benefit extends to allowing users and investors to track the performance of these acquisitions and assess the decision-making of management. However, we do not believe the model has significant predictive value, i.e., it is difficult to reflect future performance or potential financial distress beyond the current impairment assessment.

Conversely, we acknowledge the subjectivity in the current impairment model including the allocation of goodwill to reporting units and potential aggregation, which can require significant time and effort to analyze. Additionally, we observe there are increased costs to companies to internally prepare or engage a third party to determine the fair value of reporting units, which is required to apply Step 1 of the current goodwill impairment model. We believe these concerns persist even after applying the optional qualitative assessment and/or early adopting ASU 2017-04.[1] Further, there are costs incurred by investors and users of the financial statements that compare private companies, which have the option to amortize goodwill, and public companies (for example, smaller reporting companies) that do not have such option.

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.

We generally support further consideration of a goodwill amortization model with an annual assessment of impairment. This scenario would allocate the cost of an acquisition to the period that it benefits while maintaining the rigor of monitoring the goodwill balance, given its potential significance on the balance sheet for some companies. We believe this approach would be especially important if a longer amortization period, for example, 40 years, is elected.

As a second alternative, we also support further consideration of a goodwill amortization model with impairment testing based solely on triggering events. This would be similar to the treatment of tangible, long-lived assets under Topic 360 *Property, Plant and Equipment* and amortizing intangible assets under Topic 350*, Intangibles Goodwill and other*. Similar to the first recommendation, this approach would allocate the cost of an acquisition to the periods that it benefits. The frequency of goodwill impairment tests would be mitigated and provide additional cost savings compared to the first recommendation as the impairment tests would be focused on significant events that raise questions about the recoverability of the initial investment. Under either aforementioned impairment model, cost savings would be

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[1] *Simplifying the Test for Goodwill Impairment*

achieved as the balance of goodwill decreases over time for most companies, which would reduce the need for ongoing impairment reviews and associated costs.

As a third alternative, the Board might consider maintaining the current goodwill impairment model, but requiring separation of more identifiable assets from goodwill, such as an assembled workforce and/ or core technology, which would decrease the overall balance of goodwill to just those synergies that promote the company operating as a going concern. The remaining balance of goodwill would inherently have an indefinite useful life, and the need for changing the current goodwill impairment model may be reduced.

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).

We generally support (g) above as management will, as a part of its due diligence process, already have the information necessary to develop a reasonable estimate on the amortization period for goodwill acquired in a business combination, and as such, this should not represent a significant incremental cost burden on the company. For instance, management will often estimate the future cash flows and ROI of an investment when developing its bid price for a target company. That said, we recommend including a list of economic factors to consider such as (e) and (f) above to guide management's estimation process. Further, we acknowledge that estimates for the amortization period of goodwill may vary based on industry-specific economic factors.

We have mixed views on including a cap or floor (b and c) on the amortization period of goodwill. Although identifying a cap or floor on the amortization period of goodwill could provide additional simplicity for companies and auditors, we generally believe management should estimate the amortization period for goodwill using reasonable judgments and not rely solely on a cap or floor. We also generally oppose including a default period (a) because the amortization period of goodwill acquired in a business combination may vary, and as such, management should apply judgment to derive this estimate.

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.

Yes, we generally agree that the amortization method and/or period must be *reasonable*, i.e., informed by the factors and considerations in Question 4. To the extent the useful life diverges from the economic reality of the expected pattern of benefit, the usefulness of an amortization model would be called into question.

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.

Equity investors would potentially receive decision-useful information when a company properly discloses its judgments for the amortization period of goodwill, other than a default period. As such, the disclosure requirements for an amortization model would be important, e.g., detailing the significant judgments and factors assessed in determining the amortization period.

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.

We generally agree that entities which early adopted Update 2017-04 had cost savings with the removal of the second step purchase price allocation assessment. However, the decreased precision in the new one-step assessment can lead to additional scrutiny in subsequent periods. In other words, any potential "shielding" of goodwill impairment that results from the one-step assessment can put pressure on future one-step assessments. Our experience to date though suggests this concern is not pervasive. Additional time will tell if this concern becomes more significant.

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.

We generally observe that cost savings from performing the qualitative screen vary depending on the facts and circumstances associated with each company because the necessary level of analysis and documentation also varies significantly to perform this assessment. As such, preparer and user input on the usefulness of and possible improvements to "Step 0" assessments and disclosures may be helpful.

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.

As noted in the preceding questions, we support a goodwill amortization model with an annual or trigger-based requirement to assess impairment.

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.

We oppose the option to test goodwill at the entity level (unless that represents a reporting unit). The risk of masking legitimate impairment charges is simply too high.

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

We have not identified other potential changes, beyond those noted above to amortize goodwill and/or separate additional intangible assets that would also be amortized.

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.

As noted in the preceding questions, we support a goodwill amortization model with either an annual assessment for impairment or trigger-based impairment testing. Alternatively, we would also support maintaining the current impairment model while requiring the separation of more identifiable assets from goodwill.

Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

Question 13: Please describe what, if any, cost savings would be achieved if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific purchase price allocation or subsequent accounting cost savings. Please list any additional intangible items the Board should consider subsuming into goodwill.

We believe that possibly subsuming such recognized intangible assets creates limited, if any, cost savings to perform a purchase price allocation analysis. Generally, we note subsuming noncompete agreements and/or certain customer-related intangible assets into goodwill may create cost savings in valuation fees as there are a reduced number of assets being valued. However, these costs savings would be limited as the majority of the analysis performed for a purchase price allocation focuses on the valuation of other assets and liabilities, not the noncompete agreements or certain customer-related intangible assets. Further, if these intangible assets are not the primary assets in a purchase price allocation, these assets will still need to be valued separately to determine the contributory asset charge under the multi-period excess earnings method. We also note that because these assets are amortizing, generally with relatively short lives, there is little subsequent cost associated with separate recognition as it is rare for an impairment assessment to be performed.

Additionally, we generally oppose subsuming these intangible assets into goodwill as the economic lives may vary vastly with that of the goodwill.

Question 14: Please describe what, if any, decision-useful information would be lost if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets, or other items) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific analyses you perform that no longer would be possible.

We defer to users on this question.

Question 15: How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

The procedures for valuing certain recognized intangible assets can be subjective due to the underlying assumptions. Specifically, subjectivity exists in the assumptions for non-compete agreements related to the revenue and expenses impacted by the covenantor, the probabilities related to the ability and intent of a covenantor to compete and the probability of successful competition. For a customer-related intangible, subjective assumptions include attrition rates, sales and marketing add-back. However, management insight, as well as available industry information and benchmarking, provide a meaningful basis for the overall methodology and conclusion. Additionally, within a purchase price allocation specifically, a reconciliation of the discount rates (e.g. IRR, WACC and WARA) provides additional support for the overall values derived by the purchase price and intangible asset value conclusions. We believe that the overall valuation methodology is well understood and consistently applied by valuation professionals.

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.

We generally observe that there are instances where recognized intangible assets are sold outside a business acquisition, such as intellectual property (tradenames, trademarks, copyrights, trade secrets or proprietary software), licenses, patents or in process research and development. In the aggregate, these transactions occur with a fair degree of regularity.

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.

From a cost-benefit basis associated with subsuming certain intangible assets into goodwill, we support Approach 4 not to amend the existing guidance. As noted in the preceding questions, we believe subsuming certain intangible assets into goodwill creates little if any cost-benefit savings. From our perspective, the second most preferable approach is #2 to apply a principles-based criterion for intangible assets. We do not support Approaches 1 or 3. We find them equally problematic because there are limited cost savings in subsuming these intangible assets into goodwill and believe the economic lives of these assets may vary vastly from goodwill, as noted in question 13.

Question 18: As it relates to Approach 2 (a principles-based criterion), please comment on the operability of recognizing intangible assets based, in part, on assessing whether they meet the asset definition.

We support a principles-based criterion which currently exists in the glossary of Topic 805, *Business Combinations*, that notes these assets are identifiable if separable or arising from contractual or legal rights. We do not believe assessing whether an intangible asset meets the definition of an asset in the Concept Statements would be an improvement. In our experience, entities understand and are able to apply the contractual-legal test in practice today. However, we would also support a project to amend the criteria in Topic 805 to result in additional items being separately accounted for, as noted in our cover letter, especially if that project also resulted in consistency between intangible assets separately identified in a business combination and in an asset acquisition.

Question 19: Approaches 1-3 assume that subsuming additional items into goodwill would necessitate the amortization of goodwill. Do you agree or disagree? Please explain why.

Although we do not support Approaches 1 and 3, we agree that subsuming additional items into goodwill would necessitate the amortization of goodwill.

Section 3: Whether to Add or Change Disclosure About Goodwill and Intangible Assets

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?

We generally believe additional disclosures for the facts and circumstances that led to impairment testing but not a goodwill impairment loss will increase incremental costs with limited benefits to users of the financial statements. Indeed, it is difficult to envision potentially material disclosures along these lines that are not already required under other GAAP. Further, for public entities, the disclosures in the risk factors and MD&A sections of the Form 10-Ks and 10-Qs should already address these facts and circumstances.

Question 21: What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

Generally, we defer to users of the financial statements for new or enhanced disclosure considerations. In regard to question 4, we do support enhanced disclosures on management's determination for the useful life of goodwill, should the Board update the current impairment-only model to allow for the amortization of goodwill.

Question 22: What is your assessment of the incremental costs and benefits of disclosing quantitative and qualitative information about the agreements underpinning material intangible items in (a) the period of the acquisition and (b) any changes to those agreements for several years postacquisition? Please explain.

Before adding disclosure requirements, we believe it would be helpful to identify areas where users have previously indicated more information is needed.

If such information is lacking, it may be available at a reasonable cost since it is likely to have been obtained for the recognition and measurement of the intangible asset. Users may have additional insights on the incremental benefits of disclosing such information in the period of acquisition and any changes to those agreements for several years post-acquisition. However, we note that the cost associated with providing those disclosures increases significantly over time as companies integrate the acquired businesses into their pre-existing operations.

Question 23: Are there other changes (deletions and/or additions) to the current disclosure requirements for goodwill or intangible items that the Board should consider? Please be as specific as possible and explain why.

We defer to users on this point.

Section 4: Comparability and Scope

Question 24: Under current GAAP, to what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

Noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities creates more costs when these private business entities transition into public markets via an initial public offering or business combination transaction that requires historical financial statements under Rule 3-05. In those situations, alternative accounting guidance available to these private business entities must be reversed and the financial statements must be recast to be in compliance with the accounting guidance for public business entities. Additionally, there are costs incurred by investors and users of the financial statements that compare private companies, which have the option to amortize goodwill, and public companies (for example, smaller reporting companies) that do not have such option. For these reasons, we generally recommend minimizing noncomparability.

Question 25: Please describe the implications on costs and benefits of providing PBEs with an option on how to account for goodwill and intangible assets and the option for the method and frequency of impairment testing (described previously in Sections 1 and 2).

We generally observe that options on accounting treatments lead to increased costs based on noncomparability for companies, auditors and users of the financial statements. As such, we recommend minimizing options on the accounting treatment available to PBEs.

Question 26: To what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.

We acknowledge that the changes proposed herein would create a further divergence from IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* and defer to users on whether this noncomparability reduces the usefulness of financial reporting information.

Question 27: Please indicate the sources of comparability that are most important to you regarding goodwill and intangible assets. Please select all that apply and explain why comparability is not important to you in certain cases.

a. Comparability among all entities reporting under GAAP (one requirement for PBEs, private business entities, and not-for-profit entities)
b. Comparability among all PBEs reporting under GAAP
c. Comparability among all private business entities and all not-for-profit entities reporting under GAAP
d. Comparability among all PBEs reporting under GAAP and PBEs reporting under IFRS.

We recommend looking to users of the financial statements for input on this question.

Other Topics for Consideration

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

We note that these questions are focused on goodwill and intangible assets acquired in a business combination. If the Board pursues any of the changes contemplated here, it may be helpful to consider the potential implications for equity method goodwill. Furthermore, should the Board pursue an amortization model for the goodwill of public companies, it might also want to revisit the option that allows private companies to amortize goodwill over a default, 10-year useful life. Particularly, the Board may want to consider whether the amortization models of goodwill for private and public companies should converge such that the amortization period is based on a management's judgment. As previously stated, noncomparability in the accounting for goodwill between public and private companies creates more costs in the marketplace.

In addition, if the Board elects to require amortization of goodwill, we recommend also considering whether the same requirement should apply to all indefinite-lived intangible assets. We note that the annual impairment test for many indefinite-lived intangible assets requires the same or very similar assessment as the annual goodwill impairment test. Thus, any cost savings derived from moving to an amortization model, especially if combined with eliminating the annual impairment test requirement, would be limited if an annual impairment test continues to be required for indefinite-lived intangible assets.

Separately, we do not believe that it would be beneficial to users of financial statements to recognize a deferred tax liability when the book basis of goodwill exceeds the tax basis of goodwill. Further, we acknowledge that the comments in paragraph 131 of FASB's Basis for Conclusions included in SFAS No. 109, as well as Question 16 from the Guide to Implementation of Statement 109, are still as relevant today as when the standard was issued in 1992. At that time, the Board noted that "...adjusting goodwill by an amount equal to the deferred tax liability or asset for the deferred tax consequences of recovering goodwill would not provide information that is particularly relevant" … and that "the computation of that adjustment is often very complex." In this instance, we believe that grossing up a specific asset (e.g. goodwill) on the balance sheet for its deferred tax consequences does not provide meaningful information and only serves to have equal and offsetting impacts, over time, should goodwill be amortized for US GAAP purposes. While the iterative calculation used to solve for this calculation is generally understood in the practitioner community, there are situations where the use of the formula is inadvertently overlooked. Adding a requirement along these lines would create complexity.

In addition, should the Board amend guidance to amortize goodwill and recognize the related deferred tax consequences, this would lead to an increase in differences in accounting for income taxes between US GAAP and IFRS.

Next Steps

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

Yes, we would welcome the discussion.