
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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November 5, 2010

Reference: File Reference No. EITF100A, *Proposed Accounting Standards Update Intangibles – Goodwill and Other (Topic 350) How the Carrying Amount of a Reporting Unit Should be Calculated When Performing Step 1 of the Goodwill Impairment Test*

Duff & Phelps appreciates the opportunity to provide comments on the above referenced proposed ASU and the questions raised by the Board.

Our valuation advice, particularly with regards to financial reporting, is sought by hundreds of global clients annually as we work with them in developing pragmatic solutions for applying fair value techniques that are acceptable to the public accounting community. We believe that our unique perspective in the practical application of U.S. GAAP in circumstances requiring valuation input has particular relevance to the Board and its constituency as it relates to the proposed accounting standard update above.

We would be pleased to further discuss our comments with the Board and staff. Please direct any questions to me via the contact information set forth below.

Sincerely,



Paul Barnes
Global Leader – Valuation Advisory
Services and Office of Professional Practice

Sincerely,



Greg Franceschi
Financial Reporting Service Line Leader -
Valuation Advisory Services

Duff & Phelps Corporation (NYSE: DUF) is a leading independent valuation consultancy and financial advisory firm

Questions for Comment

Question 1: *Do you agree that the equity premise should be the only permissible methodology for Step 1 of the goodwill impairment test? If not, why not?*

Duff & Phelps response: We do not agree with the proposal that the equity premise should be the only permissible methodology for performing Step 1 of the goodwill impairment test.

It appears that the EITF had set out to solve a narrow problem limited to reporting units with a negative equity carrying value. However, the proposed ASU prescribes the level of all impairment tests to be at the equity level.

Topic 350's requirement that the first step of the impairment test compare the carrying amount of the reporting unit with its fair value has been interpreted in valuation practice as allowing the test to be performed at either an enterprise level or the equity level, as the current wording refers to the reporting unit's "net assets", although auditors' interpretation has often been that it should be an equity level test. It is practical to have the flexibility of choosing the level of the impairment test based on the facts and circumstances. Performing the test on an equity level is certainly meaningful for financial services companies. However, for other types of companies it could be argued that the estimation of an enterprise value better correlates with the investment decision related to the business and its assets, including goodwill (an asset), and separates it from the financing mix underlying the reporting unit's capital structure. Ultimately, the goodwill impairment test measures the operating performance of the assets in the business, net of the effect of the operating liabilities. An enterprise valuation provides a better reflection of the fair value of a company's net operating assets.

If the FASB's and EITF's intent is to address the narrow practice issue of reporting units with negative carrying amounts being able to get a "free pass" and avoid impairment, then the solution should be limited to and specifically address only this issue.

In addition, we believe that practice could also greatly benefit from an explicit acknowledgment by the FASB that the goodwill impairment test could be performed on either the equity or an enterprise level, as may be appropriate in the circumstances.

Further considerations for not limiting the level of the goodwill impairment test to an equity premise only include the following:

- Companies use a variety of corporate structures with varying amounts and types of debts pushed down to reporting units. An equity level test introduces the need to estimate the fair value of debt in all circumstances, increasing the scope and cost of the impairment analysis, and introducing another step that could be prone to diversity in practice. Apart from financial services companies, a fair value of debt analysis would currently only be required in performing a market capitalization reconciliation for publicly traded entities, where the auditors will accept an enterprise level test on the reporting unit(s) level. Further, even in those circumstances, the fair value of debt analysis may be performed on a more aggregated level, containing the scope of the analysis.
- Beyond the corporate finance definition of enterprise value which would include equity, net debt and minority interests, there may be other assets or liabilities (e.g. non-operating assets) associated with a business. A valuation would take into account such assets and liabilities if assigned to the reporting unit and make adjustments as appropriate. Therefore, the EITF's difficulty in concluding on a definition of enterprise value to be used in the impairment test should not be a reason to default to an equity premise. If, for example, an unfunded pension liability or an environmental liability has been assigned to a reporting unit, the enterprise value of the reporting unit would reflect the appropriate adjustments to be consistent with the carrying value.
- Step 2 of the analysis is typically performed on an enterprise level. Even though the intent of the FASB and EITF might have been to not necessarily change the nature of the Step 2 test, the potentially different bases in the Step 1 and Step 2 analysis do present a disconnect and may cause diversity in practice.

While a wide-spread sentiment in the valuation industry may be that a reporting unit with negative carrying equity cannot be assumed to be economically not impaired, certain accounting interpretations may result in such a reporting unit passing Step 1. Therefore, it is certainly worthwhile to explicitly address the issue of reporting units with negative equity claiming a “free pass” in Step 1 of the goodwill impairment test.

However, specific weaknesses of the impairment testing approach currently contemplated for reporting units with negative carrying equity arise from the lack of a *quantitative* measure of the enterprise or the equity at the point at which the *qualitative* assessment of a more-likely-than-not existence of goodwill impairment is made. Thus, for the narrow population of reporting units with negative carrying equity, the nature of the test is

changed from a *quantitative* test to a *qualitative* test. Further, in the event the assessment leads to a conclusion that Step 2 of the test needs to be performed, there is no quantitative starting point (of the enterprise or equity value) as would be the case with reporting units with non-negative carrying amounts. Finally, under the proposed guidance, reporting units with negative carrying equity would be often forced to perform a Step 2 test and may impair goodwill due to unrecorded intangible assets. At the same time, reporting units that have passed Step 1 by only a small margin may be able to avoid impairment.

The FASB and EITF should consider if the solution to this issue would simply require reporting units with negative carrying equity to perform an enterprise level test in Step 1, as appropriate, rather than being forced to directly consider a Step 2. This approach would also be consistent with allowing flexibility in all impairment tests to apply either an enterprise or an equity premise, as we recommended earlier.

Question 2: *Do you agree with the qualitative factors that have been provided for reporting units with zero or negative carrying amounts to consider in determining whether it is more likely than not that a goodwill impairment exists? If not, why not? Are there additional factors that also should be included?*

Duff & Phelps response: We agree with the qualitative factors provided in ASC paragraph 350-20-35-30 (a) through (g). Since the list clearly provides examples of factors, rather than being all inclusive, we believe that the factors set out a principle and should remain this way rather than attempting to include most conceivable impairment indicators.

Question 3: *Do you need more guidance on how to determine if it is more likely than not that goodwill is impaired at transition? If so, please describe what may be helpful with that determination.*

Duff & Phelps response: We believe that the qualitative factors provide sufficient guidance upon transition as well, especially if the assessment remains stated as a principle. Please see our response to Question 2.

Question 4: *For reporting entities that have used an enterprise premise to calculate the carrying amount of a reporting entity for Step 1 of the goodwill impairment test, do you believe that applying the amendments in this proposed Update would result in different conclusions about the need to perform Step 2? If so, please describe such scenarios.*

D&P Response to **Proposed Accounting Standards Update: Intangibles – Goodwill and Other (Topic 350)**
How the Carrying Amount of a Reporting Unit Should be Calculated When Performing Step 1 of the Goodwill Impairment Test
File Reference No. EITF100A

Duff & Phelps response: There could be circumstances in which changing the level of the test from an enterprise to an equity premise would lead to passing Step 1, assuming the debt of the reporting unit has been appropriately valued and any change of control provisions have been properly taken into account:

If the debt of the reporting unit is valued significantly below par, and no change of control provisions exist requiring debt repayment at par, then an equity premise test may result in passing Step 1, while on an enterprise level the reporting unit may have failed. To the extent that debt is valued below par due to a decline in the credit standing of the issuer rather than due to favorable financing rates, an equity premise could shield a potential goodwill impairment.

Question 5: *Do you agree with the proposed effective dates for public and nonpublic entities? Are they operational? If not, why not?*

Duff & Phelps response: We believe that the proposed effective dates are operational.