

June 6, 2011

Ms. Susan Cospier
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2011-180
Re. Proposed Accounting Standards Update, *Testing Goodwill for Impairment*

Dear Ms. Cospier:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed ASU *Testing Goodwill for Impairment*.

We appreciate the concerns raised by preparers regarding the cost and complexity of performing the first step of the two-step goodwill impairment test and support the FASB's objective to simplify how an entity tests goodwill for impairment. A qualitative model may, in some circumstances, reduce the cost and complexity of performing the annual goodwill impairment analysis. However, in many instances, management will need to provide a robust analysis of the qualitative factors to support its assertion that goodwill is not impaired; such an analysis, while appropriately required, could mitigate the cost savings and reduction in complexity the proposed ASU intended to provide. While the proposal is a positive move forward, to fully achieve the objectives of reducing the cost and complexity of application while maintaining a high-quality standard that provides useful information, the Board may need to more broadly reconsider the accounting model for goodwill and impairment.

In the body of this comment letter, we suggest certain clarifications and additional guidance that may help make the proposed model more operational and effective at achieving the Board's objective. The appendix contains our responses to the questions posed by the FASB in its request for comments on the proposed ASU.

Performing the Qualitative Assessment

We believe that the proposed qualitative screen may reduce the cost and complexity of performing the annual goodwill impairment analysis in some situations, particularly when an entity has recently determined the fair value of the reporting unit and the fair value exceeds the carrying amount by a significant margin (i.e., "cushion"). Establishing a baseline and analyzing the potential effects of current conditions, events, and other factors on the cushion would be an important step toward evaluating whether goodwill may be impaired. When the baseline fair value determination is relatively recent; there is a significant cushion; and current conditions, events, and other factors appear to have added to, or at least not to have eroded, the cushion, the costs under the proposed qualitative screen should be less than they are under the fair value determination in step 1 of the impairment analysis.

However, in many situations, the proposed qualitative screen will not reduce the cost and complexity of application as much as some have envisioned because management will still need to perform a

File Reference No: 2011-180
June 6, 2011
Page 2

significant, robust analysis. Under the proposed qualitative screen, an entity should “consider how significant each of the adverse factors identified could be to the fair value of its reporting unit.” To do this, an entity will most likely need to evaluate the adverse factors in the context of the significant assumptions used to determine fair value. This analysis would include both qualitative and quantitative considerations. For example, the entity may need to perform a quantitative analysis to determine whether there has been a significant change in customers and, if so, how this change may affect the entity’s long-term growth rate and other assumptions that are significant to the determination of fair value. Therefore, to support an assertion that it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, an entity will need to prepare a qualitative analysis that is supported by quantitative considerations. Accordingly, referring to the optional screen simply as a qualitative analysis may be misleading to constituents.

Without evaluating the significant assumptions, it may be difficult for entities to reasonably determine how adverse factors may affect the fair value of the reporting unit, particularly as more time passes since the last fair value calculation. Because most entities have historically engaged valuation specialists to determine or evaluate these assumptions, we believe that the significant use of valuation specialists would most likely continue under the proposed model and could potentially limit the cost savings.

Further, auditors would need to obtain sufficient appropriate audit evidence to determine whether the entity has a supported and reasonable basis for its conclusion about whether the fair value of the reporting unit is not more likely than not less than its carrying amount. Valuation specialists may still participate in audit procedures to evaluate the impact of adverse factors on the assumptions that are significant to the determination of fair value. Because of the subjectivity of the qualitative assessment, this evaluation may be more intensive than the current analysis of the quantitative fair value determination in step 1, thereby increasing preparers’ audit costs.

Because asserting compliance with the principle that it is more likely than not that the reporting unit is greater than its carrying amount under the proposal will often require significant analysis and costs, the Board should not overemphasize the cost savings and reduction in complexity. Further, the Basis for Conclusions of the proposed ASU states, in part:

[T]he Board believes that requiring an entity to perform the first step of the two-step impairment test, even when it concludes it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, would result in unnecessary costs and would conflict with the benefits of applying a qualitative approach.

However, we believe that periodically updating the fair value determination of a reporting unit may help increase the cost savings because the cost and complexity of analyzing the qualitative factors against a more current baseline will generally be less than the cost and complexity of analyzing the same qualitative factors against a much older baseline.

Differentiation Between Annual Test and Interim Test

It appears that under the proposed ASU entities would need to continually evaluate the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount (i.e., whether goodwill may be impaired). Under current GAAP, entities perform an analysis in each reporting period to determine whether an interim goodwill impairment test is needed; however, the annual test focuses on a quantitative calculation. In the absence of any trigger

File Reference No: 2011-180
June 6, 2011
Page 3

or indication otherwise, the qualitative interim analysis is clearly distinguished from the quantitative annual test.

Under the proposed model, it is not clear what would distinguish an entity's annual test from its interim analysis. If an entity elects to perform the qualitative screen, it seems that the entity would perform the same analysis on its annual testing date as it would for every other reporting period.

If the Board intends for there to be a difference between the testing requirements for an entity's annual qualitative screen and interim assessments, these differences should be clearly highlighted in the final standard. Our belief is that if the proposed qualitative factors and examples are sufficient for an entity to identify a potential goodwill impairment on a timely basis, there should not be a difference between the annual and interim tests and, therefore, the entity's assessment and documentation of the qualitative factors should be the same in each reporting period. However, as noted above, this may further limit the potential cost savings under the proposed model.

Other Indefinite-Lived Intangible Assets

We understand that the genesis of this issue was the goodwill impairment test; however, similar issues exist for other indefinite-lived intangible assets, which must also be tested for impairment annually (or more frequently if certain conditions exist). The FASB can achieve further cost savings and reduction in complexity for preparers by extending the proposed model to include other indefinite-lived intangible assets. These tests are often just as costly as, or more costly than, the entity's annual goodwill impairment analysis.

Paragraph B65 of the Basis for Conclusions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, states:

The 1999 Exposure Draft required that the fair value of an intangible asset not being amortized be tested for impairment on an annual basis. **The Board reaffirmed that requirement after it decided that goodwill should be tested for impairment on an annual basis.** The Board also concluded that an intangible asset not being amortized should be tested for impairment whenever events occur or circumstances change between annual tests indicating that the asset might be impaired. The Board agreed that the examples of impairment indicators in paragraph 5 of Statement 121 were appropriate for intangible assets not being amortized. [Emphasis added]

Because the Board's rationale for requiring an annual impairment test of other indefinite-lived intangible assets appears to have been based on its requirement for goodwill, we would expect the timing and threshold for impairment testing to remain consistent. Many of the same events and circumstances could be used as a qualitative screen to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount.

We also believe that a number of entities analogize to the carryforward option under ASC 350-20-35-29 when testing other indefinite-lived intangible assets and that removing this option, without permitting the use of a qualitative assessment similar to that in the proposed ASU, may result in a significant **increase** in costs for these entities.

Comparability of Financial Statements

The proposed model may result in some loss of comparability within the financial statements. The optionality of the proposed model (i.e., the option to perform the qualitative screen) may decrease

File Reference No: 2011-180
June 6, 2011
Page 4

comparability between entities as well as within the entity itself, since this option may be applied on a reporting-unit-by-reporting-unit and reporting-period-by-reporting-period basis.

The Board should consider requiring additional disclosures regarding an entity's goodwill impairment analysis to mitigate some of the loss of comparability within the financial statements. Section 9510 of the SEC Financial Reporting Manual discusses the staff's views on goodwill impairment disclosures in the critical accounting estimates section of MD&A. We believe similar disclosures should be required for each reporting unit, regardless of whether the entity performed the qualitative screen or calculated the fair value under step 1. Examples of such disclosures may include:

- The reporting units for which the entity calculated the fair value of the reporting unit under step 1 because the entity determined it was more likely than not that the fair value was less than the carrying amount.
- A discussion of the degree of uncertainty associated with the fair value of the reporting unit and a description of potential events or circumstances that could reasonably be expected to negatively affect the fair value of the reporting unit.

Such disclosures would help users better understand the entity's assessment of the qualitative factors and serve as an early warning for a potential future impairment. Further, these disclosures should be required for both public and nonpublic entities.

Broader Reconsideration

We support the FASB's efforts to limit further divergence from IFRSs. However, the Basis for Conclusions of the proposed ASU notes that the Board considered a number of alternatives for amending the goodwill impairment model and seems to indicate that a broader reconsideration of ASC 350 may be warranted. We would encourage the FASB to work with the IASB in a future project to perform a broader review of the guidance on goodwill and other indefinite-lived intangible assets to identify additional areas for developing improved, converged guidance.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Stuart Moss at (203) 761-3042.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

File Reference No: 2011-180
June 6, 2011
Page 5

Appendix
Deloitte & Touche LLP
Responses to Questions for Respondents

Question 4: For auditors, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why. Does your response differ based on whether the entity is public or nonpublic?

We appreciate the efforts of the FASB and believe that a qualitative model may, in some circumstances, reduce the cost and complexity of performing the annual impairment analysis, particularly when an entity has recently determined the fair value of the reporting unit and the fair value exceeds the carrying amount by a significant margin. Establishing a baseline and analyzing the potential effects of current conditions, events, and other factors on the cushion would be an important step toward evaluating whether goodwill may be impaired. When the baseline is relatively recent; there is a significant cushion; and current conditions, events, and other factors appear to have added to, or at least not to have eroded, the cushion, the proposed qualitative screen should reduce costs over the current requirements for evaluating an impairment as a full determination of the fair value of the reporting unit would not be required.

However, in many instances, the proposed qualitative screen will not reduce the cost and complexity of application as much as some have envisioned because management will still need to perform a significant, robust analysis. This analysis would include both qualitative and quantitative considerations. Under the proposed qualitative screen, an entity should “consider how significant each of the adverse factors identified could be to the fair value of its reporting unit.” To do this, an entity will most likely need to evaluate the adverse factors in the context of the significant assumptions used to determine fair value. Without evaluating the significant assumptions, it may be difficult for entities to reasonably determine how adverse factors may affect the fair value of the reporting unit, particularly as more time passes since the last fair value calculation.

Auditors would need to obtain sufficient appropriate audit evidence to determine whether the entity has a supported and reasonable basis for its conclusion about whether the fair value of the reporting unit is not more likely than not less than its carrying amount. Valuation specialists may still participate in audit procedures to evaluate the impact of adverse factors on the assumptions that are significant to the fair value calculation. Because of the subjectivity of the qualitative assessment, this evaluation may be more intensive than the current analysis of the quantitative determination of fair value in step 1, thereby increasing preparers’ audit costs. We do not believe that our audit procedures (and therefore the extent of cost savings and reduced complexity) would differ depending on whether the entity was public or nonpublic.

The FASB can achieve further cost savings and reduction in complexity for preparers by extending the proposed model to include other indefinite-lived intangible assets, which also must be tested for impairment annually (or more frequently if facts and circumstances warrant). We believe that a number of entities analogize to the carryforward option under ASC 350-20-35-29 when testing other indefinite-lived intangible assets and that removing this option, without permitting the use of a qualitative assessment similar to that in the proposed ASU, may result in a significant **increase** in costs for these entities.

File Reference No: 2011-180
June 6, 2011
Page 6

Question 5: For users, do you believe that the qualitative approach for testing goodwill for impairment will delay the recognition of goodwill impairment losses or affect how you evaluate goodwill reported in the financial statements? If yes, please explain.

The proposed model may result in some loss of comparability within the financial statements. The optionality of the proposed model (i.e., the option to perform the qualitative screen) may decrease comparability between entities as well as within the entity itself, since this option may be applied on a reporting-unit-by-reporting-unit and reporting-period-by-reporting-period basis.

The Board should consider requiring additional disclosures regarding an entity's goodwill impairment analysis to mitigate some of the loss of comparability within the financial statements. Section 9510 of the SEC Financial Reporting Manual discusses the staff's views on goodwill impairment disclosures in the critical accounting estimates section of MD&A. We believe that similar disclosures should be required for each reporting unit, regardless of whether the entity performed the qualitative screen or calculated the fair value under step 1. Such disclosures would help users better understand the entity's assessment of the qualitative factors and would serve as an early warning for a potential future impairment. Further, these disclosures should be required for both public and nonpublic entities.

Question 6: Do you agree that the proposed examples of events and circumstances to be assessed are adequate? If not, what changes do you suggest?

We generally believe that the proposed qualitative factors are adequate. However, the Board should consider adding implementation guidance on the assessment of these factors. For example, factor "g," a sustained decrease in share price, could be evaluated in the context of the entity's market capitalization and implied control premium. An implied control premium that is outside of historically acceptable ranges may, in the absence of significant mitigating factors, indicate that it is more likely than not that the fair value is less than the carrying amount. While we recognize that none of the individual factors are intended to represent a triggering event, any individual factor could, in fact, trigger a step 1 impairment test. Implementation examples that highlight how to weigh these factors and when the "more-likely-than-not" threshold is met may help entities and their auditors evaluate the factors and determine the rigor required for supporting management's assessment of whether the fair value of the reporting unit is not more likely than not less than its carrying amount.

Question 7: Do you agree that the guidance in the proposed amendments about how an entity should assess relevant events and circumstances is clear? If not, please explain why.

We generally believe that the guidance on assessing the relevant events and circumstances is clear. However, it is not clear what would distinguish an entity's annual test from its interim analysis. If an entity elects to perform the qualitative screen, it seems that the same analysis would be performed on the entity's annual testing date as would be performed for every other reporting period. If the Board intends there to be a difference between the testing requirements for an entity's annual qualitative screen and interim assessments, these differences should be clearly highlighted in the final standard.

Question 8: Do you agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities? If not, please explain why.

We agree that the proposed amendments should apply to both public and nonpublic entities.

File Reference No: 2011-180
June 6, 2011
Page 7

Question 9: Do you agree with the proposed effective date provisions? If not, please explain why.

We believe that the proposed effective date provisions are reasonable. However, it is not clear whether an entity may elect to apply the new proposed screen for an annual or interim impairment testing date that is before the issuance of the final standard. For example, if the entity has an annual testing date of October 1 and a final standard is issued on November 1, 2011, would an early-adopting entity be able to perform the proposed assessment to assert that it is not more likely than not that the fair value of the reporting unit is less than the carrying amount as of October 1, 2011? The Board should clarify the transition provisions in the final standard.