



Via Email: director@fasb.org

June 29, 2016

Technical Director
File Reference No. 2016-230
Financial Accounting Standards Board
401 Merrit 7
Post Office Box 5116
Norwalk, CT 06856-5116

Re: FASB Exposure Draft, Intangibles – Goodwill and Other (Topic 350)

Dear Technical Director,

Lincoln National Corporation (“Lincoln” or “we”) appreciates the opportunity to comment on the FASB Exposure Draft, Intangibles – Goodwill and Other (Topic 350), Simplifying the Accounting for Goodwill Impairment (“FASB ED”). Lincoln is a holding company which operates multiple insurance and retirement businesses in the United States through subsidiary companies. Through our business segments, we sell a wide range of insurance, wealth protection, accumulation and retirement income products and solutions. As of March 31, 2016, we had consolidated assets of \$256 billion, and goodwill of \$2.3 billion.

Under existing US GAAP, companies perform a two-step goodwill impairment test whereby an initial screen is performed by comparing the fair value of each reporting unit to its carrying value to determine if an indicator of impairment exists (“Step 1”). If the fair value of a given reporting unit is less than its carrying value, then a company does a more precise impairment test by calculating the implied fair value of the reporting entity’s goodwill using methodologies consistent with those used in purchase accounting and comparing the implied fair value of the reporting entity’s goodwill to its carrying value (“Step 2”).

While Lincoln appreciates the FASB’s efforts to simplify the goodwill impairment model, we do not agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test. We believe the current proposal would not result in an improvement to financial reporting as there are inherent differences in the Step 1 and Step 2 calculations and one is not a replacement for the other. We view Step 1 as a valuation of the reporting unit’s overall balance sheet and Step 2 as a specific test of the franchise value of the particular reporting unit. The existing two-step impairment model provides for an initial screen to determine whether or not a company should apply a more precise goodwill valuation to a given reporting unit. To replace the more precise Step 2 test with the initial Step 1 screen would not result in an improvement to accounting and financial reporting.

We do not believe there is a need to make changes to the existing two-step impairment model. However, if the FASB would like to simplify how an entity is required to test goodwill for impairment, we would support an accounting standard update that allows companies the option to apply Step 2 to a given reporting unit in a given accounting period should that company want to perform a more precise goodwill impairment test. This would also allow companies to utilize Step 1, a more simplified method, as their goodwill impairment test if they choose.

We have provided answers to selected questions in the FASB ED. We appreciate the opportunity to express our views on the FASB ED. If you have any questions regarding our comments please contact me at (484) 583-1798.

Sincerely,

A handwritten signature in blue ink, appearing to read 'C. Janofsky', with a long, sweeping tail.

Christine A. Janofsky
Senior Vice President and Chief Accounting Officer

Question 1: Do you agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test? Why or why not?

Lincoln Response: We do not agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test. The existing two-step impairment model provides for an initial screen to determine whether or not a company should apply a more precise goodwill valuation to a given reporting unit. To replace the more precise Step 2 test with the initial Step 1 screen would not result in an improvement to accounting and financial reporting in all circumstances. The Board acknowledges in the Basis of Conclusion paragraph 13 that the sole use of Step 1 to determine impairment will result in a less precise measurement of impairment, however it is noted that users of financial statements are not as concerned with the precision of the impairment measurement; rather if an impairment charge is warranted. In our experience, concerns are raised by the investment community when an impairment charge is recognized in a company's financial statements. These concerns may include whether to expect future impairment charges, information about the impairment recognized and what the impairment means to the value of the business that was acquired. We believe preparers should have the option to apply the more precise Step 2 fair value test if management believes its goodwill is supportable.

Although the elimination of Step 1 may seem to address the concern of users on the surface, as a preparer, we are concerned with any change to accounting and financial reporting that would require a less precise measurement method as the results may not accurately reflect the financial condition of the entity. We offer an alternative solution that would allow entities to optionally apply Step 2 to a reporting unit in the event of failing Step 1, combined with financial statement disclosures that would require entities to disclose when a reporting unit has failed Step 1. The disclosure requirements could provide users with the information required if Step 1 is failed; however, allowing entities to apply Step 2 provides preparers with the option to calculate a precise measurement of the impairment.

Question 2: Should the requirement to perform Step 2 of the current goodwill impairment test be retained as an option? Why or why not? If the use of Step 2 is optional, should an entity be allowed to apply that option by reporting unit or should it be a policy election at the entity level applicable to all reporting units?

Lincoln Response: We would support retaining the requirement to perform Step 2 of the current goodwill impairment test as an option. This would enable companies to select between a more precise measurement of impairment as provided in Step 2 while still providing flexibility to companies that prefer to utilize a simplified methodology by applying only Step 1. The Basis of Conclusion paragraph 16 notes that one of the Board's concerns with allowing Step 2 as an option is that comparability would be compromised. We noted that goodwill arises from transactions that are unique and specific to a particular entity. Goodwill itself is not comparable across entities and using the less precise Step 1 measurement still requires the use of estimates and judgments specific to an entity's unique facts and circumstances. Considering the unique nature of goodwill and the estimates and judgments required under any impairment model related to goodwill, we do not believe there is a correlation between optionally allowing entities to apply Step 2 and comparability. We also support the thoughts identified in Basis of Conclusion paragraph 17 in that companies which fail Step 1 may benefit from an optional application of Step 2. If a company believes that there are facts and circumstances that should be considered in the evaluation of goodwill impairment which can only be accomplished through the application of Step 2, those companies should be given the option to include those facts and circumstances in the measurement of impairment. Given the nature of goodwill we believe comparability is difficult to obtain under any impairment model. If the use of Step 2 is optional, we believe companies should have the flexibility to apply it by reporting unit on an annual basis, as it represents a more precise goodwill impairment test.

Question 3: Do you agree with the proposed amendments to require all entities to apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts? Why or why not? If not, what would be the suggested goodwill impairment test for reporting units with zero or negative carrying amounts?

Lincoln Response: No comment.

Question 4: Should entities with reporting units with zero or negative carrying amounts be required to disclose the existence of those reporting units and the amount of goodwill allocated to them? Why or why not? Are there additional disclosures that would provide useful information to users of financial statements?

Lincoln Response: No comment.

Question 5: Should the guidance on deferred income tax considerations when determining the fair value of a reporting unit outlined in paragraphs 350-20-35-25 through 35-27 and illustrated in Example 1 and Example 2 be retained, or should this Subtopic rely on the fair value guidance in Topic 820, Fair Value Measurement? If the guidance on the tax structure is retained, what, if any, amendments are necessary to address the potential difference in the impairment charge calculated under the proposed amendments, depending on which tax structure is used in calculating the fair value of the reporting unit?

Lincoln Response: The guidance on deferred income tax considerations when determining the fair value of a reporting unit as outlined in paragraphs 350-20-35-25 through 35-27 and illustrated in Example 1 and Example 2 should be stricken with the Subtopic relying on the fair value guidance provided in paragraphs 350-20-35-22 through 24 and in Topic 820, Fair Value Measurement. We believe inherent in any fair value measurement is the impact of tax considerations as a component into “the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date” as required pursuant to paragraph 22. Furthermore reliance on the fair value guidance provided in Topic 820 would allow reporting organizations to utilize internal fair value practice and procedures currently in place covering other financial reporting valuation requirements.

Question 6: Do you agree that the proposed guidance to remove Step 2 from the goodwill impairment test should be applied prospectively? Should there be specific transition guidance for companies that previously adopted the goodwill accounting alternative for private companies in current GAAP but decide to adopt this proposed guidance after it becomes effective?

Lincoln Response: While we are not supportive of the proposal to remove Step 2 from the goodwill impairment test, should the FASB decide to move forward with the proposal, we are generally supportive of applying the proposed guidance to remove Step 2 prospectively. However, we believe the FASB should consider providing a transition adjustment that would allow any impact in the initial period the new test is adopted to be recorded to retained earnings as the impact of adopting a new accounting standard. Absent such transition guidance, the earnings of entities which currently fail Step 1 but pass Step 2 could be unduly impacted by this change in accounting standard.

Question 7: How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

Lincoln Response: We believe the amendments in the proposed Update could be adopted relatively quickly, and would recommend no more than 1 year from issuance of final guidance to date of adoption. We believe early adoptions should be permitted.

Question 8: Would the proposed amendments meet the Board's objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of financial statements? Why or why not?

Lincoln Response: The proposed amendment would meet the Board's objective of reducing the cost of subsequent accounting of goodwill; however, we do not believe it would necessarily improve / maintain the usefulness of the information provided to users of financial statements. As noted in our responses to questions 1 and 2 of this document, companies should be permitted to utilize a more precise impairment test if they fail Step 1 to determine if goodwill is actually impaired.

Question 9: Are there additional changes that should be made to the subsequent accounting for goodwill to meet this objective, including changes that might be considered in Phase 2 of the Board's project?

Lincoln Response: We do not believe additional changes should be made to the subsequent accounting for goodwill.

Question 10: Are there any unintended consequences resulting from the improvements to the Overview and Background Sections of the Subtopics (discussed in Part II of the proposed amendments)?

Lincoln Response: No comment.