

June 30, 2016

Russell G. Golden
Chairman
Financial Accounting Standards Board
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Via email: director@fasb.org

File Reference: 2016-230 *Simplifying the Accounting for Goodwill Impairment*

Dear Chairman Golden:

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on the exposure draft *Simplifying the Accounting for Goodwill Impairment* (ED). As the title suggests, the ED proposes to provide operational relief to the currently complex process of evaluating and measuring impairment to goodwill that is recognized during business combinations by eliminating the step (Step 2 of the goodwill impairment test) to determine the implied fair value of goodwill at the measurement date. As a result, impairment would be measured merely by comparing the fair value of the reporting unit to its carrying amount (as performed in Step 1 of the test).

ABA strongly supports the overall project to review alternatives to the subsequent accounting for goodwill, together with reconsideration of the impairment model. Goodwill is excluded from a bank's regulatory capital, so the current accounting and impairment process ends up being, for many banks, an arduous process that often provides little value to our investors and supervisors. The intangible value of an enterprise is difficult to measure and becomes even more so over time and when operating within a combined organization. Limitations on the value of this information strongly suggest that alternatives to subsequent treatment of goodwill may be broadly accepted by both bankers and bank investors. The preliminary outreach we have performed with banking analysts indicates general agreement with this assessment.

The Board has noted that in the scheduled second phase of this project, the Board will consider whether to make additional changes to the subsequent accounting for goodwill, including consideration of permitting or requiring amortization of goodwill and/or further changes to the impairment testing methodology. We caution the Board that further deliberations in the second phase of the project could possibly result in a modification or reversal of the decisions from this ED. Causing banks to change

¹ The American Bankers Association is the voice of the nation's \$16 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$12 trillion in deposits and extend more than \$8 trillion in loans.

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their processes twice in a relatively short time would increase costs and complexity. Therefore, we believe the Board should consider changes to the subsequent accounting for goodwill together with the changes in this ED.

If the Board decides to continue with this separate phase of the project, rather than eliminating Step 2 of the goodwill impairment model altogether, we recommend that the Board provide the option to permit Step 2 as an accounting policy election or to use step 1 as a practical expedient to measure impairment.

While some ABA members believe that Step 2 is not cost beneficial, others struggle with the merit of measuring goodwill impairment based solely on Step 1, rather than based on the implied fair value of the goodwill asset. This concern is largely because impairment indicated in Step 1 can, at times, be contradicted by fair values estimated in Step 2, resulting in no goodwill impairment. Further, unintended consequences of eliminating Step 2 could also occur. For example, removing Step 2 from the process could result in more frequent impairments, placing additional pressure on the already-arduous Step 1 analysis. Thus, removal of Step 2 could result in little, if any, cost reduction and could even result in increased costs, as companies may incur additional costs to engage third party valuation specialists in performing Step 1.

If the Board removes Step 2 from the goodwill impairment test, we agree that the change should be applied prospectively, with no impact on previous impairment conclusions.

During the second phase of this project, we recommend that the Board consider not only the amortization of goodwill for all entities (public and private), but alternatives to amortization as well. This would result in a more thoughtful and comprehensive deliberation on goodwill accounting. While bankers have not yet thoroughly evaluated the logic and consequences of any various alternatives, a formal project will allow more time to consider the specific advantages and disadvantages, not only for bank financial statements, but for the financial statements of those companies banks serve.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,



Michael L. Gullette