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**Michael Monahan**  
Senior Director, Accounting Policy

Via Email: [director@fasb.org](mailto:director@fasb.org)

July 8, 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) – File Reference No. 2016-230*

Dear Technical Director,

The American Council of Life Insurers (“ACLI” or “we”)<sup>1</sup> appreciates the opportunity to comment on the FASB Exposure Draft, *Intangibles – Goodwill and Other (Topic 350), Simplifying the Accounting for Goodwill Impairment* (“FASB ED”).

We commend the FASB for its efforts in discussing the accounting for Goodwill, including joint discussions with the IASB, as the topic is important for the life insurance industry. ACLI appreciates the FASB’s efforts to simplify the goodwill impairment model; however, we believe the current proposal would not result in providing improved financial reporting in all circumstances. 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”).

Life insurers’ balance sheets are somewhat unique in that the accounting and reporting of our assets and liabilities results in a mixed-attribute balance sheet, with our most significant asset (i.e., investments) generally reported at fair value and our most significant liabilities (i.e., policy liabilities) generally reported at a measurement other than fair value. As a result, life insurers may find themselves in a situation where Step 1 could indicate an impairment of goodwill; however, Step 2 results in a conclusion that goodwill is

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<sup>1</sup> The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 280 member companies operating in the United States and abroad. ACLI advocates in state, federal, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing 95 percent of industry assets, 92 percent of life insurance premiums, and 97 percent of annuity considerations in the United States. Learn more at [www.acli.com](http://www.acli.com).

recoverable. Step 1 is a valuation of the reporting unit's overall balance sheet, and Step 2 is a specific test of the goodwill of the particular reporting unit.

In order to achieve its objective 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 impairment test. This also would allow companies to utilize Step 1, a more simplified method, as their goodwill impairment test if they choose.

A potential concern with allowing companies the option to apply Step 2 is one of comparability. We note that goodwill arises from transactions that are unique and specific to a particular entity. Goodwill itself is not comparable across entities, and using the simplified 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 comparability is compromised by making the application of Step 2 optional.

We have provided answers to selected questions in the FASB ED. We appreciate the opportunity to express our views on the FASB ED. Should you have any questions regarding our comments please do not hesitate to contact me (MikeMonahan@acli.com).

Sincerely,

A handwritten signature in black ink, appearing to read "M Monahan", with a stylized flourish at the end.

Mike Monahan  
Senior Director, Accounting Policy

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

**ACLI 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. As an example, life insurers' balance sheets are somewhat unique in that the accounting and reporting of our assets and liabilities results in a mixed-attribute balance sheet, with our most significant asset (i.e., investments) generally reported at fair value and our most significant liabilities (i.e., policy liabilities) generally reported at a measurement other than fair value. As a result, life insurers may find themselves in a situation where Step 1 could indicate an impairment of goodwill; however, applying Step 2 allows insurers to measure policy liabilities at fair value, which may result in a conclusion that goodwill is recoverable. Step 1 is a valuation of the reporting unit's overall balance sheet and Step 2 as a specific test of the goodwill of the particular reporting unit. Considering the example of a mixed-attribute balance sheet; the complete elimination of Step 2 may result in a requirement to impairment goodwill that is recoverable.

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, whether 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 our business acquired. In order to respond to these questions from users of financial statements, we believe preparers should have the option to apply a more precise measurement of impairment so that management is comfortable and can support the level of information provided to users of financial statements. Although the elimination of Step 1 may satisfy the concern of users, it may not satisfy the concern of preparers in that less precise financial statement may not accurately reflect the financial condition of the entity. Having less precision in a company's financial statements may not be an improvement to the quality of financial statements in all circumstances. We believe an impairment model that strikes a balance between the concerns of users and preparers is preferable. We offer an alternative solution that would allow entities to optionally apply Step 2 in the event of failing Step 1, combined with an amendment to financial statement disclosures that would require entities to disclose when a reporting unit has failed Step 1. Amendments to 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?**

**ACLI 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 the flexibility 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 simplified 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 comparability is compromised by making the application of Step 2 optional. We also support the thoughts identified in *Basis of Conclusion*, paragraph 17, in that reporting units which fail Step 1 may benefit from an optional application of Step 2. If a company believes that there are facts and circumstances with respect to a given reporting unit in a given accounting period that should be considered in the evaluation of goodwill impairment which can only be accomplished through the application of Step 2, the option to include those facts and circumstances in the measurement of impairment should be available. 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 to any given reporting unit in any given accounting period, as it represents a more precise goodwill impairment test. Companies should also have the ability to apply the simplified method on an annual basis if they so choose.

**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?**

**ACLI 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?**

**ACLI 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?**

**ACLI Response:** No comment.

**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?**

**ACLI 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 opening 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.

**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?**

**ACLI Response:** We believe the amendments in the proposed Update could be adopted relatively quickly, and would recommend no more than one year from issuance of final guidance to date of adoption. We believe early adoption 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?**

**ACLI 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 the FASB ED, 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?**

**ACLI 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)?**

**ACLI Response:** No comment.