



July 8, 2016

Technical Director
Financial Accounting Standards Board
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Via e-mail – director@fasb.org

Re: File Reference No. 2016-230. Proposed Accounting Standards Update: Intangibles – Goodwill and Other (Topic 350): *Simplifying the Accounting for Goodwill Impairment*.

Plante & Moran, PLLC is pleased to offer comments on the above referenced Exposure Draft. We support the efforts of the Financial Accounting Standards Board (Board) to simplify the accounting for goodwill impairment. Following, please find our responses to the specific Questions for Respondents in the proposed Update.

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

Response 1: We agree with the Board's objective to simplify the accounting for goodwill impairment. However, we believe the best way to simplify the accounting for goodwill impairment is to maintain the current two-step impairment model, and allow entities to use the one-step impairment model in the proposed Update as an optional practical expedient. As noted in the Basis for Conclusions to FASB Statement No. 142, *Goodwill and Other Intangible Assets*, the Board considered Step 2 of the current guidance to be the best measure of the amount of an impairment loss as it most closely resembles how goodwill is calculated in a business combination. Furthermore, as the Board has acknowledged in previous deliberations, a Step 2 analysis is a more precise measure of the value of goodwill. Therefore, we believe the proposed Update should provide entities with the option to perform a Step 2 analysis. While the cost of performing a Step 2 analysis is generally greater than performing a one-step impairment test, under this alternate proposal, an entity would only perform a Step 2 analysis if it deems the benefit from the more precise measure of the impairment loss to outweigh the cost of performing the additional analysis.

Using the alternate approach outlined above, the Board would not need to change the definition of goodwill impairment in paragraph 350-20-35-2. Instead, the definition would remain the same, and an optional practical expedient would be added to allow entities to bypass the Step 2 analysis. We believe this would be preferable to changing the definition of goodwill impairment and making a Step 2 analysis optional. If the Board changes the definition of goodwill impairment, it would be difficult in practice to maintain the option to perform a Step 2 analysis because a Step 2 analysis would be inconsistent with the revised definition of goodwill impairment. The proposed alternate approach would also be consistent with other recent Updates where the Board has allowed for practical expedients as a method for reducing complexity in GAAP.

In the Basis for Conclusions to the proposed Update, the Board noted that allowing the option of performing the Step 2 analysis could decrease comparability. We do not believe this would be a significant concern of users of financial statements. From our experience, both the Step 1 and Step 2 analyses involve subjective estimates, and results can vary significantly based on small changes in the assumptions used in the analyses. As there can be a range of assumptions in the analyses that are reasonable and supportable, even if all entities are performing only a one-step impairment test, there could be significant variations in the conclusion as to whether goodwill is impaired and the amount of goodwill impairment. Therefore, we do not believe allowing entities the option of performing a Step 2 analysis will significantly reduce comparability in calculating the amount of goodwill 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?

Response 2: As stated in Response 1, we believe entities should have the option to perform Step 2 of the current goodwill impairment test.

When determining whether to perform the current two-step impairment test or the proposed one-step test, we believe an accounting policy election should be made at the entity level and applied to all reporting units. We believe an entity level election would be most appropriate as electing at the reporting unit level could allow entities to select different methods in different situations in order to achieve the most desired outcome.

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?

Response 3: We do not believe the proposed one-step impairment model is appropriate for use when reporting units have zero or negative carrying amounts. In the Basis for Conclusions to the proposed Update, the Board noted that the population of reporting units with zero or negative carrying amounts is small and the majority of those reporting units would not recognize any goodwill impairment under the current goodwill impairment model. While we recognize this is likely the situation with publicly traded entities, our experience in working with entities that are not publicly traded is significantly different. In our experience, it is not uncommon for entities to have reporting units with zero or negative carrying values, and in many of these situations, goodwill impairment losses are recognized under the current guidance. Often times, reporting units have a zero or negative carrying value as a result of operational losses, and the qualitative assessment under the current guidance indicates that goodwill is impaired. Under the proposed amendments, these entities would carry goodwill on their books indefinitely, even when conditions and qualitative factors indicate the reporting unit's goodwill is impaired, as the fair value of the reporting unit is unlikely to be negative. Based on our experience, we recommend an alternate approach based in part on the qualitative analysis required in the current guidance, which we believe would provide more useful information to financial statement users.

If a reporting unit has zero or negative carrying value, we propose there should be a rebuttable presumption that goodwill is impaired, and the full amount of goodwill be written-off as an impairment loss. To refute the presumption that goodwill is impaired, an entity would be able to perform a qualitative assessment to demonstrate that goodwill is not impaired, consistent with the qualitative analysis allowed under ASC 350-20-35. If it is determined that goodwill is impaired, the entity would then have the option to either write-off all of the goodwill or perform a Step 2 analysis to determine the amount of the goodwill impairment loss. We believe this would be a better approach based on our experience, where reporting units that have a zero or negative carrying amounts typically recognize goodwill impairments.

Paragraphs BC29 and BC30 address the Board's consideration of this approach. The Board concluded a rebuttable presumption would be a very high barrier to overcome in practice and could be cost prohibitive. In our experience, in situations where a zero or negative carrying value is not a result of operational losses, but rather due to factors such as a leveraged dividend, we do not believe it would be costly for an entity to refute the presumption that goodwill is impaired. We believe entities would be able to perform a qualitative assessment in these situations to prove that goodwill is not impaired at a relatively small cost.

We believe this approach would be preferable for users of financial statements as it would not result in reporting units with zero or negative carrying amounts reporting goodwill on their books indefinitely in situations where qualitative factors indicate goodwill is impaired. We believe this could also reduce costs in situations where qualitative factors indicate goodwill is impaired, as the entity would not be obligated to perform an impairment analysis. Rather, the entity could elect to write-off all of the goodwill. As stated above, while a rebuttable assumption is a high barrier to overcome, we believe allowing entities to prepare a qualitative analysis, consistent with ASC 350-20-35, would help to limit the costs to these entities.

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?

Response 4: If the Board determines the proposed one-step impairment test should be used for entities with zero or negative carrying amounts, then we agree the proposed disclosures should be required in order to increase transparency. However, if the Board were to adopt an approach similar to the alternate approach described in Response 3 above, we do not believe the proposed disclosures would be necessary.

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?

Response 5: We believe entities should use the fair value guidance in Topic 820 when determining the fair value of a reporting unit as part of a goodwill impairment test. As one of the Board's objectives of this proposed Update is to reduce complexity, we believe the fair value

guidance in Topic 820 should be utilized instead of maintaining specific fair value guidance for goodwill impairment.

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?

Response 6: Yes, we agree that any changes to the model for testing goodwill for impairment should be applied prospectively. However, as noted in Response 1 above, we believe entities should continue to have the option to perform a two-step goodwill impairment analysis.

As a primary focus of the proposed Update is to improve consistency, we believe specific transition guidance should be provided for companies that have previously adopted the PCC's goodwill accounting alternative. Providing specific guidance will help reduce diversity in practice in the application of the proposed Update by those companies that previously adopted the PCC's goodwill accounting alternative.

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?

Response 7: As the proposed amendments are a simplification and would not require entities to accumulate new information, we do not believe the time necessary to adopt the proposed amendments would be significant for public business entities or other entities. In addition, we recommend that early adoption 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?

Response 8: We agree with the Board's objective to reduce the cost of the subsequent accounting for goodwill. However, as noted in Responses 1 and 3 above, we believe there are alternative ways to reduce the cost of the subsequent accounting for goodwill while enhancing the usefulness of the information provided to users of the financial statements.

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?

Response 9: We believe the Board should consider whether goodwill should be amortized or written-off at the date of acquisition as part of Phase 2 of the project. We believe that goodwill does not represent a probable future economic benefit; therefore, carrying goodwill on the balance sheet indefinitely does not provide useful information to users of financial statements. In our experience, most financial statement users recognize that goodwill represents a payment in excess of the fair value of assets in a business combination and not an asset which will provide benefit in the future. Therefore, many financial statement users disregard goodwill and any goodwill impairment or amortization when analyzing the financial condition of an entity.

Technical Director
Financial Accounting Standards Board

5

Another topic we believe the Board should consider addressing is the subsequent accounting for goodwill in reporting units with zero or negative carrying values when the PCC goodwill accounting alternative has been elected. Under the alternative, there may be situations where goodwill impairment triggers are present; however, as noted in Response 3 above, using the one-step impairment test will generally result in no impairment being recognized when the carrying value of a reporting unit is zero or negative. We believe guidance is required to clarify how the amount of impairment should be calculated in these circumstances.

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)?

Response 10: We did not identify any unintended consequences from the improvements to the Overview and Background Sections.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@plantemoran.com or at 248.223.3745.

Very truly yours,

PLANTE & MORAN, PLLC