



July 8, 2016

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

RE: File Reference No. 2016-230

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's recent proposal, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. We commend the FASB for its efforts to simplify financial reporting while maintaining or enhancing decision-useful information for investors.

We support the proposal in the Exposure Draft (ED) to eliminate Step 2 of the current goodwill impairment test. We agree that the proposal would simplify financial reporting by reducing the costs and complexity associated with the hypothetical purchase price allocation as currently required by ASC 350-20-35-10. We believe that this simplification would not significantly reduce the information provided to investors regarding goodwill impairment. While we understand some constituents may be concerned with the lack of consistency between this approach and the measurement of goodwill at initial recognition, we do not support retaining Step 2 as an option as it would create a lack of comparability across reporting entities.

We also agree that the proposed amendments should apply to reporting units with zero or negative carrying amounts. We do not believe the costs and complexity of retaining Step 2 for a relatively small population of preparers and reporting units justifies the benefit.

As a result of the change in the measurement of a goodwill impairment, an impairment loss may be recognized in the period of adoption that did not arise as a result of changes in circumstances in the current period. Therefore, while we agree, in principle, with the prospective method of transition, we recommend the adoption of the standard as of the beginning of the period, regardless of the date of the annual goodwill impairment test, and that any impairment loss and related income tax effects as a result of adoption be recognized as the cumulative effect of adoption outside of income from continuing operations in the income statement.

We are aware that the Board has a broader project on its agenda related to the subsequent accounting for goodwill. We support that broader reconsideration. We encourage the Board to work collaboratively with the IASB to reduce the possibility of divergence to the subsequent accounting for goodwill.



Our detailed responses to the questions in the ED are contained in the appendix to this letter. If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or Larry Dodyk at (973) 236-7213.

Very truly yours,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP



Appendix

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

Yes. We agree with the proposal as it would simplify financial reporting by reducing the cost and complexity associated with performing a hypothetical purchase price allocation. In addition, as articulated in the basis for conclusions, the usefulness of the information provided to investors would not be significantly reduced.

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?*

In our view, keeping Step 2 as an option is not consistent with the objective of simplifying the goodwill impairment model. That said, we are aware that some companies that hold primarily financial assets and liabilities are able to more efficiently execute Step 2 of the goodwill impairment test. For those companies, the potential cost reductions from the simplified approach may not outweigh the perceived inconsistency between the measurement of a goodwill impairment and the manner of measuring goodwill at the date of initial acquisition. However, we believe that permitting the optional use of Step 2 will decrease comparability among reporting entities. Should the Board decide to allow preparers the option to apply Step 2, then we believe that it should be an accounting policy election at the entity level. Any subsequent change would be subject to the preferability requirement applied to all other changes in accounting method.

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?*

Yes, we agree that only one model should be applied to all reporting units. Under the proposed impairment model, goodwill allocated to reporting units with zero or negative carrying value generally would not be impaired as the fair values of most all reporting units are positive. Any different qualitative or quantitative assessment of impairment for these reporting units would require a separate measurement approach. This would inevitably create conceptual confusion and practical difficulties.

We also agree with the observation in the basis of conclusion that allowing or requiring a different test for reporting units with zero or negative carrying amounts would be inconsistent with the treatment for reporting units with small positive carrying amounts and could result in vastly different impairment charges.



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?*

Yes, we agree that the proposed disclosure for reporting units with zero or negative carrying amounts will provide useful information to users of financial statements. We do not believe any additional disclosures are 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?*

Yes. We believe that the above mentioned guidance and examples have provided useful information and therefore should be retained. We note the potential difference in the impairment loss calculated under the proposed amendments, however, we do not believe any amendments should be made as the proposed approach follows the fair value concept under ASC 820 and is consistent with the actual decision-making process of a disposal.

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?*

Yes. We agree with the prospective application of the proposed guidance.

However, entities that fail Step 1 but would not recognize an impairment under Step 2 of the current guidance may need to recognize an immediate impairment loss at the date of adoption which does not relate directly to the current period. Therefore, while we agree, in principle, with the prospective method of transition, we recommend the adoption of the standard as of the beginning of the period, regardless of the date of the annual goodwill impairment test, and that any impairment loss and related income tax effects as a result of adoption be recorded as a cumulative effect of adoption outside of income from continuing operations in the income statement. This would be similar to the transition method for the goodwill impairment test prescribed in the superseded Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (June 2001).

We do not believe there should be any specific transition guidance for companies that previously adopted the goodwill accounting alternative for private companies.



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?*

We believe that the proposed guidance will require limited time to adopt. Therefore, assuming a final standard is issued this year, we support an effective date as early as January 1, 2017 for calendar year-end public and nonpublic reporting entities, with early adoption 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?*

Yes. As discussed in our response to Question 1, we believe that the proposed guidance will meet the Board’s objective by reducing the cost while maintaining the usefulness of the information provided to users of 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?*

As indicated in our cover letter, we propose that the Board broadly consider other aspects of the impairment test.

We support the Board’s consideration of potential improvements to the subsequent accounting for goodwill, and we encourage the Board to continue its collaboration with the IASB to reduce divergence should the Board propose significant changes (e.g., changing to an amortization model).

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)?*

No. We do not believe there are any unintended consequences resulting from the improvements to the Overview and Background Sections of the Subtopics.