Grant Thornton

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Re: File reference number 2016-230

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. We commend the Board on its efforts to simplify accounting for goodwill impairment and support the proposed simplifications as discussed below.

Some entities and industries or industry sectors might view a two-step model as a more accurate determination of impairment because Step 2 utilizes the concept of implied goodwill. Overall, however, we believe that the change to a one-step model will achieve the objectives related to simplification and we note, in support of a simpler approach, that users and others often question the decision-usefulness of goodwill impairment.

Responses to Selected Invitation to Comment questions

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

We agree with the proposed change to eliminate Step 2. We believe that a one-step test will be easier to apply and more efficient than the current two-step test. Also, consistency will be maintained as all entities shift to the one-step approach. Of course, the transition to a one-step test will result in differences as compared with current guidance, but that will occur for a relatively short period of time.

We believe that in the context of deductible goodwill, issues would arise if a reporting unit's goodwill were impaired and a deferred tax asset recorded based on that impairment. Recognizing those deferred taxes would increase the reporting unit's carrying amount above its fair value, thus suggesting further impairment might exist. Accordingly, we recommend that the Board consider amending the proposal to address the impact of income taxes in recognizing an 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?

Entities have applied the same two-step impairment test since the effective date of Statement No. 142 (with amendments such as the qualitative assessment). In part, the current proposed amendments to eliminate Step 2 are intended to reduce cost and complexity; therefore, allowing optionality to continue the two-step approach appears counter to the Board's simplification initiative.

We would not support optionality in the amended guidance because there would be less comparability among entities and, depending on how an option would be elected and applied, impairments could be masked.

Specifically, we would have concerns if entities could elect the two-step model for some, but not all reporting units. An issue would be how to account for goodwill reallocation when reporting units with different approaches to impairment testing are changed in a reorganization or disposal of a portion of a reporting unit. We would have further concerns if entities could make periodic elections to use the two-step model—whether entity-wide or at the reporting unit level—because of lack of comparability and the potential for masking impairment.

That said, if the amended guidance were to provide for an accounting policy election upon adoption whereby an entity could elect to [continue to] apply the two-step model, we believe the election should apply to all reporting units and that the election be irrevocable. With optionality, there is the associated question of preferability. If the amended guidance were to specify a one-step test, but allow a two-step policy election, we recommend that the wording be clear as to which approach is preferable.

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?

We agree. We recognize that zero or negative carrying amount reporting units may or may not have impairment, just like any other reporting units. We do not see the need for a distinction between a reporting unit that has a relatively low carrying amount versus one with a zero or negative carrying amount. In a simple example, an entity with goodwill in two reporting units has a corporate cash management policy that sweeps all available cash to a corporate treasury function, leaving one reporting unit with a positive carrying amount and the other with a negative carrying amount. Both could have substantial fair values (or not) and we believe approaching both in the same manner would be appropriate.

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?

We support disclosure of reporting units with zero or negative carrying amounts and the allocated goodwill. These reporting units may exist for a number of reasons, including leverage, corporate cash management techniques similar to that described in our response to Question 3, losses, and a host of other reasons. We believe that those disclosures would be helpful in understanding which operations with allocated goodwill do not have positive carrying amounts. We also suggest that the Board consider whether disclosure of the primary reason(s) a reporting unit has a zero or negative carrying amount should be required.

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?

We believe that the guidance on income tax considerations cited in the question should not be retained and that the proposed amendments instead should refer to Topic 820.

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?

We agree that the proposed guidance should be applied prospectively. We suggest that the Board consider transition guidance similar to that in ASU 2011-08: prospective, early application permitted, and early application permitted for tests performed prior to the date the ASU is issued if the financial statements for that period have not yet been issued.

In the context of private companies deciding to adopt the proposed guidance, we believe those entities should have the same effective date(s) as other entities applying the proposed guidance that had not elected the accounting alternative. That is, impairment tests prior to the effective date would be performed based on current guidance and tests after that date would be performed under the amended guidance as they retrospectively reconstruct their goodwill accounting.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Doug Reynolds at 617-848-4877 or doug.reynolds@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP