JPMORGAN CHASE & CO.

Bret Dooley
Managing Director
Corporate Accounting Policies

July 11, 2016

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standard Update – Intangibles-Goodwill and Other (Topic 350) – Simplifying the Accounting for Goodwill Impairment (the "ED")

Dear Ms. Cosper:

JPMorgan Chase & Co ("the Firm") appreciates the opportunity to comment on the *Intangibles-Goodwill and Other Topic 350 – Simplifying the Accounting for Goodwill Impairment* Exposure Draft issued by the Financial Accounting Standards Board ("FASB" or the "Board"). While we generally support simplification of the subsequent measurement of goodwill, we are concerned that the ED may lead to unintended consequences and additional complexities. Our comments focus on the importance of: (1) retaining Step 2 as a policy election and (2) addressing the issues in Phase 1 and Phase 2 together in a single project.

The Appendix provides the Firm's responses to the FASB's relevant Questions for Respondents and explains our concerns in more detail.

We appreciate the opportunity to submit our views, and would be pleased to discuss our comments with you at your convenience.

Sincerely yours,

Bret Dooley

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Appendix – Responses to Questions for Respondents

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

<u>Question 8</u>: 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?

We do not agree with the proposal to eliminate Step 2 from the goodwill impairment test. While Step 1 measures the fair value of a business or a reporting unit, it does not directly measure the value of the goodwill. Although in some cases, the difference between the fair value of a business or a reporting unit and its carrying value may approximate the difference between the fair value and carrying value of its goodwill (for example when most assets and liabilities are carried at fair value), this is not always the case. Therefore, it seems likely that reliance on Step 1 as both an indicator of possible impairment as well as a measure of that impairment is likely to lead to differences in the timing and measure of impairment versus current GAAP.

We understand that some may believe that such an outcome could be justified by the computational simplicity of eliminating Step 2. However, we are concerned that when the valuation estimate in Step 1 is used as the sole input to the measurement of impairment, there will necessarily be incremental focus on the precision of the valuation estimate (and the associated judgmental inputs). This may require additional valuation expertise (obtained externally by many preparers) and therefore the overall effort and cost associated with the goodwill impairment testing will not actually be reduced as the Board intends.

<u>Question 2</u>: 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?

We believe that the Step 2 of the current goodwill impairment test should be retained as an option and that the entity should be able to apply the option as an irrevocable accounting policy election at the entity level (i.e., applicable to all of its reporting units). As the Board noted in paragraph BC 16, the option would enable those preparers who willingly choose to incur the cost of carrying out Step 2 of the goodwill impairment test to do so and would not impede the Board's objective to have simplification for those entities that may find Step 2 to be burdensome.

We acknowledge the Board's concern that introducing such optionality may decrease comparability. However, such optionality already exists in today's GAAP with regard to the qualitative Step 0 assessment, which is optional on a reporting-unit-by-reporting-unit basis, as well as in the Private Company Council's alternative of amortizing goodwill.

<u>Question 5:</u> 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

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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 recommend the Board retain the existing guidance within ASC 350 on deferred income tax considerations. Such deferred income tax considerations would be even more important to the Step 1 analysis if the ED becomes finalized as written.

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?

While we do not support the removal of Step 2 from the goodwill impairment test, we agree that the any amendments in this proposed Update should be applied prospectively. In our opinion, retrospective application based on past fair values of the business or reporting unit is not justified by any potential benefit.

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?

We urge the Board to combine Phase 1 and Phase 2 into a single project. We believe that the decisions in each Phase are too intertwined to be deliberated separately, and suggest that the Board consider the approach used in the *Accounting for Financial Instruments: Hedging* project. In that project, the FASB developed alternative sets of multiple decisions that fit together, rather than asking the Board to vote on single decisions in a linear fashion.

In addition, as noted in paragraph BC 10, the Board may consider permitting or requiring amortization of goodwill in the Phase 2 of the project. Amortization would increase complexity by requiring the prediction of the useful lives of assets, and the pattern in which the goodwill would diminish over time. Furthermore, it may be difficult to achieve consensus not just on the subsequent measurement, but also on the appropriate transition for existing goodwill balances, based on the differences in size and complexity among preparers. In addition, we are aware of the view that goodwill is not a wasting asset, and therefore are concerned that amortizing goodwill would create additional non-GAAP measures, an outcome that the FASB may seek to avoid.