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2016-230
Comment Letter No. 31
330 North Wabash, Suite 3200
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July 11, 2016

Via email to director@fasb.org

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

Re: Simplifying the Accounting for Goodwill Impairment (File Reference No. 2016-230)

Dear Ms. Cospers:

We are pleased to provide comments on the Board's proposal to simplify how an entity evaluates goodwill for impairment. We support the Board's objective to reduce the cost and complexity of the accounting for goodwill.

We generally agree with the proposed revisions, but believe certain clarifications will be necessary in the final amendments, as elaborated in the Appendix to this letter.

We also support efforts in Phase 2 of this project to further simplify the accounting for goodwill by adopting an amortization approach coupled with a "trigger-based" impairment test. This would replace the need for an annual impairment review, which would result in potentially significant cost-savings.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Yosef Barbut (212) 885-8292.

Very truly yours,

BDO USA, LLP

Appendix

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

We support the proposal to eliminate Step 2 from the goodwill impairment test because we believe it will reduce unnecessary cost and complexity in applying the guidance in Topic 350. In addition, BC13 of the Basis for Conclusions states “many users have indicated that the most useful information is knowing whether an impairment charge is warranted, not the precise amount of that impairment.” Therefore, on balance, we agree that the exposure draft represents an improvement to financial reporting.

We also recommend clarifying in the final standard that deferred income taxes for deductible goodwill would be adjusted as a consequence of an impairment, causing the carrying value of the reporting unit to increase by the deferred tax adjustment (net of a valuation allowance, as the case might be, determined under the provisions of Topic 740). In the event the deferred tax adjustment is the sole reason that the carrying value is still higher than the fair value of the reporting unit, we believe the final amendments should indicate no further goodwill impairment should be recorded. This would avoid the need to “gross up” the impairment charge and deferred taxes.

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?

We do not support retaining Step 2 of the current goodwill impairment test as an option. Rather, we believe that requiring that all entities (other than those entities eligible to apply the private company accounting alternative in paragraphs 350-20-35-62 through 35-78) to apply the same model for impairment will promote comparability.

However, if the Board decides to retain Step 2 as an option, then we recommend its application be consistent with the optional qualitative assessment in paragraphs 350-20-35-3A through 35-3G (“Step 0”). That is, since Step 0 may be applied to any reporting unit in any period, and its election in one period does not necessitate its application in future periods, we believe that Step 2, if retained as an option, should be permitted to be applied on the same basis.

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 with this aspect of the proposal.

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 agree with the proposed disclosures.

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 proposed elimination of Step 2 renders the income tax guidance in par(s) 350-20-35-25 through 35-27 and Examples 1 and 2 less relevant. We suggest moving this guidance to Topic 820 and adding a cross-reference in Topic 350 so it is clear that income tax matters should be considered in estimating the fair value of a reporting unit, e.g., determining whether the hypothetical sale of the reporting unit is taxable or nontaxable.

Our recommendation stems from two observations. First, Examples 1 and 2, while useful in showing the comparison of nontaxable and taxable disposal structures, do not fully explain why the hypothetical market participant buyer would be willing to pay a higher price in a taxable transaction, nor do they explain why the seller's (the reporting entity's) income tax is higher under one as opposed to the another disposal structure. Important variables such as inside-basis vs. outside-basis differences, the availability of net operating loss and tax credit carryforwards, preferential tax rates on one type of income (e.g., capital) vs. another type of income (e.g., ordinary), the jurisdictional location of the assets, and other matters are not contemplated. Further, existing guidance does not contemplate various tax-deferred equity restructuring (e.g., spin off) and disposal structures (e.g., exchange of shares and/or assets). As such, a brief indication in Topic 350 that a full consideration of the principles in Topic 820 should be undertaken would avoid the risk that practitioners may conclude income tax matters can be disregarded by simply eliminating the tax related guidance in ASC 350-20-35. We also note that if Step 2 is retained as an option (which we do not support), an entity making that election may still find the existing guidance and Examples useful if they are relocated to Topic 820 (as opposed to being eliminated entirely).

Second, we note Topic 820 provides virtually no guidance on income tax considerations in fair value measurements. Paragraph 129 in the basis for conclusion of FAS 109 contained the following quotation from paragraph 89 of Opinion 16: "the fair value of an asset to an acquirer is less than its market or appraisal value if all or a portion of the market or appraisal value is not deductible for income taxes." This statement was the only known guidance in U.S. GAAP on this topic (the basis for conclusion on the definition of fair value measurement in FAS 141R is silent on this matter) and unfortunately it was eliminated from the accounting literature when FAS 109 was codified in ASC 740. The valuation profession has nonetheless incorporated this principle (commonly referred to as "tax amortization benefit" or a component of fair value) in the fair value measurement of intangible assets. Nevertheless, since U.S. GAAP is currently silent on this issue the Board might wish to conduct pre-agenda research on whether additional guidance in Topic 820 should be provided.

If the FASB decides to retain the aforementioned guidance in Topic 350, we note paragraph 350-20-35-7 currently states that "deferred income taxes shall be included in the carrying amount of the reporting unit, regardless of whether the fair value of the reporting unit will be determined it would be bought or sold in a taxable or nontaxable transaction." The wording of this paragraph suggests that the carrying value of a reporting unit is not affected by the choice of an assumed

disposal structure. However, in practice a question sometimes arises as to whether to include deferred tax assets for operating loss and income tax credit carryforwards in the carrying value when the assumed disposal structure is a taxable transaction. This question will become more critical if Step 2 is eliminated and the aforementioned guidance is retained in Topic 350 (or moved to Topic 820 as we recommend). The FASB should take this opportunity to clarify whether it believes the carrying value should include deferred tax assets for these types of carryforwards, regardless of the assumed disposal structure.

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 to remove Step 2 should be applied prospectively. However, we believe the final amendments should clarify whether they apply specifically to goodwill impairment assessments occurring in periods after the effective date, similar to the transition approach used for the recent standard on discontinued operations.¹ That is, should any in-process impairment tests be completed pursuant to the existing guidance in Topic 350?

We do not object to one-time specific transition guidance for entities that previously adopted the private company accounting alternative. However, we believe an entity that previously applied the private company accounting alternative would need to meet the criterion in paragraph 250-10-45-2b that it is preferable to use the revised guidance in the final amendments if it does not adopt the final amendments upon the initial effective date.

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 a period of one year or less would be sufficient for all entities to adopt the amendments because of its potential to simplify the goodwill impairment test. We support allowing early adoption for any period for which the financial statements have not been issued or been made available to be issued.

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?

We believe the proposed amendments would achieve the objective of reducing the cost of the subsequent accounting for goodwill.

As noted above, it appears the Board is aware that some users find more value in knowing whether impairment exists than they do in knowing its precise amount (BC13). However, other stakeholders may offer additional feedback in this regard.

¹ See paragraph 205-20-61-1(a)(1) in ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

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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 support the Board's plan to consider additional simplification in the subsequent accounting for goodwill through Phase 2 of the project. We suggest the Board consider whether to permit all entities to apply a model similar to the private company alternative, specifically, a model in which goodwill is amortized and impairment testing occurs only upon a triggering event.

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)?

We do not foresee any unintended consequences resulting from the improvements to the Overview and Background Sections of the Subtopics.