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July 11, 2016
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Exposure Draft, *Simplifying the Accounting for Goodwill Impairment* (File Reference No. 2016-230)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Simplifying the Accounting for Goodwill Impairment*.

We agree with the Board's objective of simplifying the subsequent measurement of goodwill by removing Step 2 from the goodwill impairment test. We believe that the proposals 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.

KPMG's responses to the Board's specific questions are included in Appendix 1.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 954-1086 or kbascom@kpmg.com, or Julie Santoro at (212) 954-1086 or jsantoro@kpmg.com.

Sincerely,

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Appendix 1 – Responses to the Board’s Questions

Question 1 – Eliminate Step 2

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

Yes, we support the proposal to eliminate Step 2 from the goodwill impairment test. We believe that the amendments would reduce cost and complexity for preparers, while maintaining the usefulness of information provided to financial statement users. Our reasoning is further explained in our response to Question 8.

Question 2 – Step 2 retained as optional

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?

No, we do not believe that the final ASU should give an entity the option to perform Step 2 of the goodwill impairment test. Retaining Step 2 as an option would reduce comparability, and make the amendments less effective in the context of the Board’s simplification objective.

However, if the Board decides to retain Step 2 as an option, we believe that an entity should be required to make a policy election at the *reporting entity level* about whether to apply Step 2. We do not believe that a reporting entity should be allowed to use different impairment models to measure goodwill impairment for its individual reporting units.

Question 3 – Reporting units with zero or negative carrying amounts

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 believe that all entities should apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts. In view of the Board’s simplification objective, and because the population of reporting units with zero or negative carrying amounts is relatively small, we do not believe the benefits of a separate impairment model for that population would justify the costs.



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In addition, any attempt to develop a separate impairment model for such reporting units would be disadvantaged by the arbitrary bright line of a zero carrying amount. For example, a carrying amount of positive \$5 would result in applying the proposed amendments, but a carrying amount of negative \$5 would result in applying a different model.

Question 4 – Disclosure of reporting units with zero or negative carrying amounts

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?

No, we do not believe that the Board should require disclosure of the existence of reporting units with zero or negative carrying amounts, or the amount of goodwill allocated to them. A requirement for incremental disclosure seems inconsistent with applying a one-step impairment test to *all* reporting units.

In view of the Board's project to improve the effectiveness of financial statement disclosures, we believe that the most useful information for financial statements users is whether goodwill impairment exists. Absent an impairment, it is unclear what decision-useful information would be conveyed by the proposed disclosure.

As a drafting comment, we note that the proposals seem to require entities to identify all reporting units with zero or negative carrying amounts, regardless of whether goodwill has been allocated to them. If the Board decides to retain the disclosure, we recommend that the Board clarify that disclosure is required only if goodwill is allocated to the reporting unit.

Question 5 – Taxable versus nontaxable transactions

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?

In measuring the fair value of a reporting unit, we believe that Subtopic 350-20 should rely on the fair value guidance in Topic 820, *Fair Value Measurement*. We believe that the guidance in Topic 820 provides entities with the proper framework to measure the fair value of a reporting unit, and it is not helpful to retain fair value measurement guidance outside of Topic 820.



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However, we believe that the guidance on taxable versus nontaxable transactions in paragraphs 350-20-35-25 – 35-27 is useful application guidance in measuring fair value from the perspective of a market participant. Therefore, we recommend that the Board consider adding Examples 1 and 2 in Subtopic 350-20 to the implementation guidance and illustrations in Topic 820. We believe that the examples would require edits to conform to the language and framework set out in Topic 820, but otherwise would not require substantive change. For example, the examples would refer to market participant assumptions instead of the “feasibility” of transactions.

Further, we agree with the Board’s decision to retain the guidance in paragraph 350-20-35-7, which requires an entity to include deferred income taxes in the carrying amount of a reporting unit regardless of whether the estimate of fair value is based on a taxable or nontaxable transaction. This guidance is practical and useful to preparers because it avoids the need for a conceptual analysis based on specific facts and circumstances. Spending substantial effort on that analysis is not consistent with the level of precision achieved in measuring goodwill impairment.

Question 6 – Prospective application and transition for private companies

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 that the ASU should be applied prospectively. We believe that retrospective application would be too burdensome for preparers and would not be consistent with the Board’s simplification objective.

We acknowledge that specific transition guidance for private companies that previously adopted the goodwill accounting alternative would minimize the potential for inconsistent application if they decide to apply U.S. GAAP for public business entities.

However, if the Board chooses to provide specific guidance to reduce the cost and complexity associated with private company transition, we believe that such guidance should not ignore situations in which private companies have adopted the accounting alternative in Subtopic 805-20, *Business Combinations – Identifiable Assets and Liabilities, and any NCI*, to subsume certain intangible assets into goodwill. We believe that private companies that have elected this alternative (subsuming certain intangible assets into goodwill) should be required to continue applying the accounting alternative to amortize goodwill.



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Question 7 – Time to adopt

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?

Because the proposed amendments require entities to perform the same Step 1 impairment test that they already perform, we believe that entities would require very little time to apply the amendments. This includes private entities that have not adopted the goodwill accounting alternative.

Consistent with other recently completed simplification projects, we believe that entities should be permitted to early adopt the amendments in the ASU.

If the Board decides to provide specific transition guidance for private companies that have adopted the goodwill accounting alternative, those entities may need more time to apply the final ASU, depending on the Board's transition provisions.

Question 8 – Reducing cost and complexity

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, we agree that the proposed amendments would reduce the cost and complexity of the current goodwill impairment test. We acknowledge that calculating goodwill impairment under the proposals will generally result in a less precise measurement of goodwill impairment, but we believe that users are more concerned about the existence of goodwill impairment than its precise amount (as noted in BC13).

Question 9 – Additional changes and future phases

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 exploring additional changes that would further simplify the subsequent accounting of goodwill while maintaining the usefulness of information for users of financial statements.

We believe that certain complexities exist from having different impairment models for nonfinancial assets in U.S. GAAP, and the interaction of these models sometimes results in



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outcomes that are not intuitive. The most obvious example is the model in Topic 350 versus the model in Topic 360, *Property, Plant, and Equipment*.

We believe that the Board should consider a comprehensive project related to the impairment of nonfinancial assets, including goodwill and other intangibles, but acknowledge that the Board's forthcoming agenda consultation is the appropriate forum for consideration of that topic.

Question 10 – Unintended consequences

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 currently are not aware of any unintended consequences from the proposed amendments to the Overview and Background Sections of the Subtopics.