



Edison Electric  
INSTITUTE



July 11, 2016

Technical Director  
File Reference: 2016-230  
Financial Accounting Standards Board  
401 Merritt 7  
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**File Reference: 2016-230 – Proposed Accounting Standards Update  
Intangibles – Goodwill and Other (Topic 350)  
Simplifying the Accounting for Goodwill Impairment**

Dear Ms. Cosper:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Exposure Draft on the Proposed Accounting Standard Update (ASU) on *Intangibles – Goodwill and Other (Topic 350)- Simplifying the Accounting for Goodwill Impairment* (hereafter the "Exposure Draft").

EEI is the association that represents all U.S. investor-owned electric companies. EEI members provide electricity for 220 million Americans, operate in all 50 states, and directly employ more than a 500,000 workers. With more than \$90 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. EEI has 70 international electric companies as Affiliate Members and 250 industry suppliers and related organizations as associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

EEI and AGA regularly work together on projects of mutual interest and impact to the energy utility sector broadly, and the comments expressed herein represent the majority view of each organization's member companies.

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We support the proposed amendments to simplify the subsequent measurement of goodwill and believe they will reduce the cost and complexity of evaluating goodwill for impairment. We provide our comments below on certain specific questions in the Exposure Draft which are most relevant to our members.

**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 Board's simplification efforts and believe the proposed amendment to eliminate Step 2 from the goodwill impairment test will reduce the time and cost required in situations where a Step 2 would be required under current guidance.

**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 believe Step 2 should be retained as an option. Retaining an option for entities to apply Step 2 would not achieve the Board's intent to simplify the accounting for subsequently measuring goodwill, as it would in essence be no different than how the guidance is being applied today. In addition, it would reduce the comparability between companies without requiring additional disclosure. As noted in the basis for conclusions, many users have indicated that the most useful information is knowing whether an impairment charge is warranted, not the precise amount of that impairment. We believe Step 1 is an adequate framework for determining whether goodwill has been impaired and an adequate proxy for the measurement of a goodwill impairment loss and, thus renders Step 2 unnecessary.

**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**

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**charge calculated under the proposed amendments, depending on which tax structure is used in calculating the fair value of the reporting unit?**

We suggest retaining the guidance on deferred income tax considerations and the related illustrated examples. We believe that guidance, as supplemented by the fair value guidance in Topic 820, is helpful to preparers. We recommend requiring entities to disclose the assumed tax structure (and rationale) used in calculating the fair value of the reporting unit to provide transparency to the users of the financial statements.

**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. There would be little to no value to users of the financial statements if entities were required to apply the proposed changes retrospectively.

**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 recommend permitting early adoption upon issuance of the final ASU. Under the proposed update, an entity will still have the option to perform the qualitative assessment for a reporting unit to determine if the Step 1 quantitative impairment test is necessary. An entity that determines a quantitative impairment test is necessary, or elects to bypass the qualitative assessment, is already required to perform the Step 1 test on at least an annual basis. Therefore we believe there would not be a significant amount of lead time necessary to adopt the amendments to the proposed updates for most entities. Permitting early adoption will allow an entity to benefit from the simplification immediately and would also help ensure that any interim impairment tests are performed on a basis consistent with the annual impairment test.

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**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, we believe the proposed amendment will meet the Board’s objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to the users of the financial statements. However, the extent of the reduction of costs will vary from entity to entity and depend largely on whether a Step 2 would otherwise be required under current guidance.

**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 do not believe additional changes beyond those in the proposed amendment should be made to the subsequent accounting for goodwill. We believe the changes in the proposed amendment 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.

**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 are not aware of any unintended consequences resulting from the improvement to the Overview and Background Sections of the Subtopics.

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EI and AGA appreciate the opportunity to provide our input on this Exposure Draft. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

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Vice President, Edison Electric Institute

/s/ Patrick J. Migliaccio

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Senior Vice President & Chief Financial Officer  
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