AICPA® PCPS
Private Companies Practice Section

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July 14, 2016

Susan M. Cosper, CPA
Technical Director
FASB
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Re: May 12, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment* [File Reference No. 2016-230]

Dear Ms. Cosper:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC is responding to this ED from the perspective of private entities that either cannot or choose not to implement the accounting alternative for the subsequent measurement of goodwill in ASU 2014-02, *Accounting for Goodwill; a consensus of the Private Company Council*.

TIC is supportive of the proposed amendments but is requesting that the Board not eliminate the existing, relevant guidance on deferred income tax considerations when determining the fair value of a reporting unit. In Phase 2 of the project, TIC recommends that the provisions of the private company alternative relating to accounting for goodwill be extended to not-for-profit entities (NFPs).

SPECIFIC COMMENTS

TIC agrees with the proposed amendments to eliminate Step 2 from the goodwill impairment test for the reasons discussed in paragraph BC12 of the ED. The amendments will reduce costs for preparers without any detrimental effect for financial statement users and would be consistent with the recommendations in the report issued on the Post-Implementation Review on FASB Statement No. 141 (revised 2007), *Business Combinations*.

TIC does not see any compelling reason to retain an option to perform Step 2 of the test. Retention of the Step 2 test would add unnecessary complexity.

TIC did not object to the Board's conclusion that the same one-step impairment test should apply to reporting units with zero or negative carrying amounts, especially given the complexities involved in requiring alternative impairment procedures. TIC believes financial statement users will benefit from disclosure of the existence of these units and the amount of goodwill allocated to them.

TIC agrees that the proposed ASU should be applied prospectively and that specific transition guidance would be helpful for companies that previously adopted the goodwill alternative for private entities but decide to adopt this standard after it becomes effective. This type of accounting change may occur when a private entity that adopted the accounting alternative is planning to go public at some point in the future. In such cases, it is especially important to ensure that preferability issues are considered and that the accounting change is implemented correctly and consistently among all affected entities.

TIC would support early adoption of the proposed ASU. If the final ASU is issued prior to the end of the calendar year, TIC believes a one-year transition period would be sufficient.

TIC's concern about the potential elimination of specific guidance on deferred income tax considerations when determining the fair value of a reporting unit (Question 5) and TIC's suggestions regarding Phase 2 of this project (Question 9) are presented below.

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?*

TIC recommends retaining the paragraphs that include guidance and related examples on deferred income tax considerations when determining the fair value of a reporting unit. Paragraphs 350-20-35-25 through 35-27 and Examples 1 and 2 provide guidance on whether the estimation of fair value should be based on a taxable v. nontaxable transaction. According to an internal valuation specialist in one TIC member's firm, the guidance to be deleted is repeatedly referred to with clients and can make a difference under GAAP today on whether or not an entity passes the Step 1 test.

The internal valuation specialist noted that clients are routinely jumping to a conclusion regarding a taxable or nontaxable structure without appropriate consideration of market participant assumptions. For example, a pass-through entity may assume no deferred taxes should be considered in the fair value of the reporting unit. However, it may be in the market participant's best economic interest to sell the reporting unit in a taxable transaction. As noted in the ED, large differences in the impairment amounts can result from different assumed tax structures. If the guidance on deferred income tax considerations is eliminated, TIC is concerned that preparers and valuation experts will lose valuable guidance to ensure the accurate and consistent application of determining the fair value of a reporting unit.

In addition, the Board's question above asks if Subtopic 350-20 should "rely on the fair value guidance in Topic 820, *Fair Value Measurement*." TIC would not support this idea. In fact, TIC believes it would be very difficult to "rely on" the fair value guidance in Topic 820 because Topic 820 does not address deferred income tax considerations and other matters necessary to apply fair value measurement principles to a goodwill impairment test. Paragraphs 350-20-35-22 through 35-27 explain fair value measurement principles in the context of a specific application (i.e., determining the fair value of a reporting unit). Having specific guidance which explains how to apply a standard with broad application (such as fair value measurement) within a particular context is especially invaluable for private entities. Any nuggets of clarification with this level of specificity are always welcomed and useful. TIC therefore believes that it would be a mistake to eliminate the specific guidance in Topic 350 relating to determining the fair value of a reporting unit, including the deferred income tax considerations.

If the guidance on deferred income tax considerations is retained, the Board may wish to consider whether an additional disclosure of the assumed tax structure may be warranted in certain circumstances.

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?*

TIC believes Phase 2 of this project should allow NFPs to elect the existing private company alternative to amortize goodwill and to test it for impairment in accordance with ASU 2014-02. Users of NFP financial statements disregard goodwill and goodwill impairment losses just as much as users of other private entities' financial statements. It is also very costly to value goodwill for impairment each year. Many small NFPs do not have the resources/talent to do so internally and therefore need to seek outside assistance. By their nature, NFPs may have even greater cost burdens than for-profit entities in obtaining valuation specialists to calculate the fair value of their reporting units. Therefore, NFPs have essentially the same relevance and cost/benefit issues as other private entities and have a special need for inexpensive and simple accounting alternatives, wherever possible.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Michael A. Westervelt

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees