



July 20, 2016

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Submitted via electronic mail to director@fasb.org

Re: File No. 2016-230

Dear Chairman Golden,

Financial Executives International (FEI) is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CCR member companies represent approximately \$5 trillion in market capitalization and actively monitor standard setting activities of the FASB.

This document represents the views of CCR and not necessarily the views of FEI or its members individually.

FEI's CCR is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) on Topic 350, *Simplifying the Accounting For Goodwill Impairment* ("the Proposal"). We commend the Board for its efforts to simplify the accounting for goodwill.

Overall, we are supportive of the FASB's efforts to simplify the subsequent measurement of goodwill. We believe the elimination of Step 2 of the goodwill impairment test will reduce complexity and cost overall for some. However, we believe there may be situations, for a variety of reasons, in which an entity may wish to continue to perform Step 2 of the current impairment testing model based on their specific facts and circumstances.

Therefore, we believe the Board should retain the current two step model for impairment testing, but specifically allow a "Practical Expedient" under which a company could forego Step 2 and record goodwill impairment based on Step 1. Our experience is that investors generally do not

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have any significant reaction to impairment charges incurred by companies. Rather, these charges are generally excluded from primary performance metrics by both companies and investors. At the same time, Step 2 of the impairment model is significantly more time consuming and costly than Step 1 without necessarily providing additional beneficial information to investors. Accordingly, added effort and cost is incurred to perform a full Step 2 analysis, but that cost and effort arguably does not produce any more decision-relevant information than Step 1 (which as noted is typically excluded from primary performance metrics). We believe the Practical Expedient approach compensates for this cost/relevance mismatch, and therefore represents a meaningful and valid simplification.

However, we also understand that there may be situations in which companies believe the added cost and effort to perform Step 2 are justified for a specific set of circumstances or reporting unit – either in order to determine a more accurate measure of impairment or in situations wherein a Step 2 valuation would reveal that goodwill may or may not be impaired due to the composition and fair value of the net tangible and identifiable intangible assets of the unit. The Practical Expedient approach would allow companies the ability to make an assessment, at the reporting unit level, whether performing Step 2 is justified based on their specific facts and circumstances.

We have also considered whether the Board could achieve the same simplification via an option that retains Step 2 as a policy election. We believe the Practical Expedient is the preferred approach. The assessment of whether to forego the practical expedient and proceed to Step 2 is very fact and circumstances driven and may be driven by differences between reporting units (i.e., due to the composition of the underlying net tangible and identifiable intangible assets) and over time (i.e., Step 2 may result in an impairment in one period and not another). Presumably, requiring companies to avail themselves of this simplification opportunity via a policy election would lock them into an approach that doesn't make sense for all situations.

If the Board does not agree with the Practical Expedient approach, we would support allowing companies to proceed to Step 2 via an optional policy election. However, we believe that policy election should be made at the reporting unit level as the cost, time and complexity of performing a Step 2 valuation can vary significantly based on the nature of the underlying assets of the reporting unit.

While we believe this proposal is an important first step in simplifying the accounting model for goodwill, we encourage the Board to undertake a second phase of this project and engage in an evaluation of the "day 2" accounting for goodwill. This evaluation could include an assessment of (1) whether goodwill represents an asset or a residual value that should be classified in equity and (2) whether an amortization versus impairment approach may be more appropriate and if so, (i) over what period of time (ranging from immediate to long term) and (ii) the geography of the charge (earnings or equity) amortization. We would be happy to engage in discussions with the Board on this potential phase.

The following pages provide our responses to individual questions in the proposal.

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Sincerely,

Richard Levy

Richard Levy
Chairman, Committee on Corporate Reporting
Financial Executives International

Cc: Susan Cospers, FASB

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

Per our introductory comments, and for the reasons stated therein, we believe the Board should retain the current two step model for impairment testing, but specifically allow a "Practical Expedient" under which a company could forego Step 2 and record goodwill impairment based on Step 1. If the Board does not agree with a practical expedient, we believe the choice of whether to utilize only Step 1, or to perform both Steps 1 and 2, should be an accounting policy election made individually by each company, at the reporting unit level and applied consistently over time, based on each company's specific facts and circumstances. In this circumstance companies can base this decision on their own cost benefit analysis which is consistent with other cost benefit decisions they perform, for example, when determining whether to perform the qualitative assessment for goodwill impairment.

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?

For the reasons stated in our introductory comments, we believe the Practical Expedient approach is preferable to an optional accounting policy election. However, if the Board does not agree with the Practical Expedient approach, we would support allowing companies to proceed to Step 2 via an optional accounting policy election that is made at the reporting unit level.

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 are not aware of any compelling rationale for applying different policies to reporting units with zero or negative carrying amounts and do not support an approach which applies different accounting guidance in such situations.

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 are not aware of any compelling rationale for applying different policies to reporting units with zero or negative carrying amounts and do not support an approach which applies different accounting guidance in such situations.

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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?

While ASC 820 provides an appropriate framework for determining fair value overall, we believe the examples in the existing guidance in Examples 1 and 2 are helpful in highlighting the income tax considerations that should be made when determining whether the reporting unit should be assumed to be sold in a taxable or nontaxable transaction. We therefore, recommend the Board retain this guidance.

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 decided to adopt this proposed guidance after it becomes effective?

We agree in order to reduce cost and complexity, and whether as a practical expedient or policy election, the adoption of this guidance should be applied on a prospective basis.

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 adoption of our proposed approaches would require a short lead time since this represents a simplification. Additionally, as we are recommending that companies can opt to forego Step 2 or maintain their current approach, we believe early adoption should be permitted.

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 agree such amendments would reduce cost and complexity.

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?

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While we believe this proposal is an important first step in simplifying the accounting model for goodwill, we encourage the Board to undertake a second phase of this project and engage in an evaluation of the "day 2" accounting for goodwill. This evaluation could include an assessment of (1) whether goodwill represents an asset or a residual value that should be classified in equity and (2) whether an amortization versus impairment approach may be more appropriate and if so, (i) over what period of time (ranging from immediate to long term) and (ii) the geography of the charge (earnings or equity) amortization. Such an analysis should include a robust evaluation of the costs and benefits to companies who would be required to apply the new standard. We would be happy to engage in discussions with the Board on this potential phase.

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)?
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We are not aware of any unintended consequences.