July 6, 2016

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update—*Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*

(File Reference No. 2016-230)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Craig T. Goodman, Chair of the Financial Accounting Standards Committee, at (212) 324-7048, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

F. Michael Zovistoski
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE—*INTANGIBLES—GOODWILL AND OTHER (TOPIC 350): SIMPLIFYING THE ACCOUNTING FOR GOODWILL IMPAIRMENT*

(File Reference No. 2016-230)

July 6, 2016

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Comments on

Proposed Accounting Standards Update—*Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*

(File Reference No. 2016-230)

General Comments

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on the Proposed Accounting Standards Update—*Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment* (Proposed Update).

Specific Comments

We have the following responses to the questions posed in the Proposed Update.

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

Response: We agree with the proposed amendment to eliminate Step 2 from the goodwill impairment test. The application of Step 2 requires the determination of "implied fair value," which is not consistent with the original measurement or the attributes of goodwill.

Currently, Topic 350-20-35-9 requires the reporting entity to compare the implied fair value with the carrying amount of reporting unit goodwill. Pursuant to Topic 350-20-35-14, the reporting entity determines the amount of implied goodwill by simulating a business combination. This process requires assigning a fair value to all assets and liabilities of the relevant reporting unit. As a practical matter, reporting entities often incur the cost of outside valuation specialists to determine such fair values in reporting units where goodwill is material.

Theoretically, the objective of the test is not consistent with the original measurement of goodwill. According to Topic 805-30-30-1, goodwill is the excess of consideration transferred in a business combination less the net of acquisition date amounts of identifiable assets acquired and liabilities assumed. Thus, goodwill is a residual value, which, according to the ASC Master Glossary, represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Since it cannot be individually identified, it cannot be received or sold in an orderly transaction, and therefore cannot be assigned a direct fair value.

The proposal recognizes the residual value of goodwill by comparing the carrying amount and the fair value of the respective reporting unit. In addition, the proposal recognizes that the value of goodwill is derived from the reporting unit as an integrated entity and not the accumulation of fair values of assets less fair value of liabilities. Finally, obtaining the fair value of the entire reporting unit is less onerous than determining the fair values of the individual assets and liabilities, while providing information consistent with the original measurement of goodwill.

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?

Response: We are not opposed to retaining Step 2 as an option. If the Board chooses to retain Step 2 as an option, we recommend that entities be required to adopt a policy to either exclude or retain Step 2 in an impairment consideration of all reporting units. In addition, entities should disclose that policy.

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?

Response: We agree with the proposed requirements to apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts. A significant issue is whether a reporting entity with zero or negative carrying value has any future economic benefits that are reflected in goodwill. If it does not have any future economic benefit, a reporting unit may have a zero fair value because the parent company could simply abandon it without penalty since collateral for any debt is limited to the reporting unit's assets.

Currently and under the proposal, the parent company would not have to recognize goodwill impairment of reporting units whose zero fair value exceeds its negative carrying value. This conclusion is counterintuitive because a reporting unit with minimal or zero fair value would not seem to have future economic benefits; hence, goodwill should be impaired. We recommend that the proposal present a rebuttable presumption that goodwill is fully impaired in instances when a reporting unit has both zero fair value and zero or negative carrying value. This presumption should be supported by verifiable facts and circumstances.

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?

Response: We agree that entities should be required to disclose the existence of reporting units with zero or negative carrying amounts. Additional disclosures should include how the presumption that goodwill is fully impaired was overcome, as discussed in our response to Question 3.

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?

Response: The guidance on deferred income tax considerations when determining the fair value of a reporting unit should be retained.

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?

Response: We agree that the proposed guidance to remove Step 2 from the goodwill impairment test should be applied prospectively. We see no benefit in determining whether goodwill was impaired in prior reporting periods.

The goodwill accounting alternative for private companies has eliminated Step 2 and also requires the amortization of goodwill over a period not to exceed 10 years. We believe that companies adopting the proposed guidance after previously adopting the goodwill accounting alternative for private companies would do so only if required by regulatory or contractual circumstances. For example, a reporting entity may adopt the proposed guidance because it is engaged in going public.

We believe it would be more constructive if the Board conform the goodwill impairment guidance applicable to public and all other entities. We note that the wording contained in the alternative guidance differs somewhat from the proposed guidance, which potentially could cause differences in their application. Conforming the two processes would reduce complexity, while reflecting that the basic theory is the same for both types of entities.

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?

Response: Reporting entities would not need more than a year to adopt the new proposal because the proposal eliminates a step, as opposed to adding additional procedures. This would be true if the Board decides to retain the option of applying Step 2, as this proposal would not result in substantive change from current generally accepted accounting principles. In addition, entities other than public business entities that adopted ASU 2014-02 (which was issued over two years ago) would not need a different amount of time than public business entities to apply this proposal. For this reason, early adoption should be permitted.

We recommend that adoption be required at the beginning of the fiscal year so it can be applied during the entity's normal goodwill impairment consideration process.

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?

Response: As discussed in our response to Question 1, obtaining a fair value of the entire reporting unit would be less costly than determining the fair values of the individual assets and liabilities, while providing information consistent with the original measurement of goodwill.

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?

Response: We believe the Board should completely conform the accounting required for public business entities with the accounting alternative for goodwill available to private companies. This would include conforming the impairment test guidance for both types of entities and requiring the amortization of goodwill.

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)?

Response: While we are supportive of eliminating Step 2 from the impairment quantification process, we believe that allowing entities to evaluate impairment at the entity level rather than the reporting unit level might result in confusion over which entity level (i.e., parent or subsidiary) is being used as the basis for evaluating impairment. Specifically, reporting companies evaluating goodwill impairment could interpret the entity level to be the ultimate parent organization. Theoretically, goodwill that is clearly impaired at the subsidiary/reporting unit level might not be deemed impaired at the reporting company (i.e., parent level).

The term "entity" is often used interchangeably with the term "reporting entity." The guidance in ASC 350-20-35-37 asserts that "reporting units will vary depending on the level at which performance of the segment is reviewed, how many businesses the operating segment includes, and the similarity of those businesses." In other words, a reporting unit could be the same as an operating segment, which could be the same as a reportable segment, which could be the same as the entity as a whole (entity level). As a consequence, confusion over the term "entity" could result in the deferral of the recognition of goodwill impairment. We suggest that the final ASU clarify how broadly the entity level should be extended in evaluating goodwill impairment.