October 7, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*

Dear Mr. Kuhaneck:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned invitation to comment.

The NYSSCPA's Financial Accounting Standards Committee deliberated the invitation to comment and prepared the attached comments. If you would like additional discussion with us, please contact Jeffrey A. Keene, Chair of the Financial Accounting Standards Committee, at (732) 750-0900, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Ita M. Rahilly
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

INVITATION TO COMMENT, *IDENTIFIABLE INTANGIBLE ASSETS AND SUBSEQUENT ACCOUNTING FOR GOODWILL*

October 7, 2019

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New York State Society of Certified Public Accountants

Comments on

Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*.

General Comment

We are supportive of FASB's continued evaluation of ways to simplify accounting and encourage FASB to continue in its efforts. We offer our responses to selected questions in the invitation to comment, below.

Specific Comments

Section 1: Whether to Change the Subsequent Accounting for Goodwill

Question 1: What is goodwill, or in your experience what does goodwill mainly represent?

Response: In our experience goodwill mainly represents a premium paid to the net assets acquired, generally reflecting the value of the assembled workforce to operate the net assets to generate returns. We believe that it also represents a premium for the right to control the net assets and anticipated synergies with existing operations.

Question 2: Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits.

Response: We do not believe the current goodwill impairment model justifies the cost of the information provided. Preparers and auditors are reluctant to use the qualitative model or Step 0, except in circumstances where there is little doubt that goodwill is not impaired. As a result, entities invest significant time and resources developing models and analyses, often paying significant fees to third parties and incremental fees to auditors. The information provided is, at best, no longer relevant, capturing changes in the operating environment on a historical basis. Worse, it could be treated as irrelevant and then ignored by users of the financial statements.

Question 3: On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

Response: We support amortization of goodwill with impairment testing upon the occurrence of a triggering event. Our view is based, in part, on our assessment that goodwill is consistently consumed and regenerated through continued operations and, therefore, not actually indefinite-lived.

Question 4: If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you did not select certain characteristics.

a. A default period
b. A cap (or maximum) on the amortization period
c. A floor (or minimum) on the amortization period
d. Justification of an alternative amortization period other than a default period
e. Amortization based on the useful life of the primary identifiable asset acquired
f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
g. Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

Response: We believe that a narrow range should be provided with a default period encouraged, such as 15 years. Guidance should be provided to assist reporting entities in evaluating and justifying an amortization period other than the default period. This would simplify the accounting treatment by (1) limiting the judgments a reporting company needs to make and continue to support and (2) if set at 15 years, aligning the amortization period with the tax code.

Question 5: Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period? Please indicate yes or no and explain.

Response: We believe that it is most appropriate for the goodwill to be amortized and tested for impairment solely upon the identification of a triggering event. Our view would change if the amortization period were much longer than we have suggested, for example 30 years or more.

Question 6: Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.

Response: We believe in most cases that, if an entity justifies an amortization period other than a default period, it is merely confirming the understanding of an equity investor and would not provide decision-useful information. That is, we believe the factors to support a different period would be well understood by equity-investors and, therefore, the justification of a different period than the default would not provide additional decision-useful information. Most entities would incur significant costs to evaluate and justify a change from the default period and, in such cases, the change would not be considerable and, therefore, the incremental information is not worth the related cost.

Question 7: Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test? Do the amendments in

Update 2017-04 reduce the usefulness of financial reporting information for users? Please explain.

Response: We believe the amendments in Update 2017-04 reduced the cost to perform the impairment evaluation. However, the effort and costs to first determine if there was impairment remained unchanged. Update 2017-04 may increase the costs of Step 1 for close calls or instances where some, but not all, goodwill is impaired since that is the measure for impairment.

We do not believe the amendments in Update 2017-04 reduced the usefulness of financial reporting information for users. A goodwill impairment charge indicates that the business is not adequately performing and that management does not expect a substantial recovery in operations. The method of measuring that impairment does not significantly reduce the usefulness of financial reporting information for users.

Question 8: Do the amendments in Update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2011-08 reduce the usefulness of financial reporting information for users? Please explain and describe any improvements you would recommend to the qualitative screen.

Response: We believe that most reporting entities will limit the qualitative screen only to those evaluations that have a high certainty of not being impaired. As a result, we do not believe that the amendments in Update 2011-08 reduce the usefulness of financial reporting information for users. Enhanced guidance and examples would facilitate reporting entities' use of the qualitative screen to reduce costs for impairment testing.

Question 9: Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually? Please explain why in your response.

Response: We believe a model, similar to the impairment model in ASC 360, should be applied. A reporting entity should only assess goodwill for impairment if it identifies a triggering event that indicates goodwill could be impaired.

Question 10: Relative to the current impairment model, how much do you support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)? Please explain why in your response.

Response: Public business entities should be required to test goodwill at the reporting unit level, while other than public business entities should have the choice to test goodwill at the reporting unit level or at the entity level. We believe public business entities have the resources to properly identify reporting entities and are likely to have higher numbers of reporting units which would increase the risk that a high performing reporting unit would mask impairment triggers in an entity level assessment. We believe that other than public business entities generally have fewer reporting units and a different population of users who are not as influenced by impairments done at the reporting unit as opposed to at the entity level.

Question 12: The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering "yes" or "no" to the questions in the table below. Please explain your response.

	Do You Support the Indicated Model? Yes/No	Do You Support Requiring an Impairment Assessment Only upon a Triggering Event? Yes/ No	Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit? Yes/ No
Impairment only	No	No	No
Amortization with impairment	Yes	Yes	No – PBE Yes – OPBE
Amortization only	No	Not applicable	Not applicable

PBE – Public Business Entity
OPBE – Other Than Public Business Entity

Response: As described above, we believe an amortization model with impairment assessment only upon a triggering event is most appropriate. We also believe that the impairment assessment should be at the reporting unit level for public business entities while other than public business entities should be permitted a choice to test for impairment at the reporting unit level or at the entity level.

Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

Question 13: Please describe what, if any, cost savings would be achieved if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific purchase price allocation or subsequent accounting cost savings. Please list any additional intangible items the Board should consider subsuming into goodwill.

Response: We believe that cost savings will be achieved by limiting the intangible assets recognized in purchase accounting. We understand from discussion with valuation professionals that such assets are still required to be evaluated in order to assess the overall purchase price allocation and ensure consistency within the allocation and overall transaction. We note that fewer intangible assets will reduce the subsequent accounting costs for impairment testing, particularly for certain customer related intangibles, where reporting entities are required to assess forecasts only for relationships that existed at the transaction date.

Question 15: How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

Response: We believe that certain customer-related intangibles are reliably measured. For such intangibles, there are well-accepted models to apply. We commonly see the multi-period excess earnings method used to value certain customer-related intangibles. This model is well understood by valuation professionals and produces a reliable valuation of the customer-related intangible. Conversely, our experience is that intangibles like non-compete agreements are valued based on management's assessment of the overall transaction and, therefore, are not reliably measured.

Question 16: To gauge the market activity, are you aware of instances in which any recognized intangible assets are sold outside a business acquisition? If so, how often does this occur? Please explain.

Response: We are aware of sales of certain recognized intangibles, including patent and trademark sales and licensing, as well as mortgage servicing rights. Less frequently, customer lists can be sold.

Question 17: Of the possible approaches presented, which would you support on a cost-benefit basis? Please rank the approaches (1 representing your most preferable approach) and explain why you may not have selected certain approaches.

a. Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill
b. Approach 2: Apply a Principles-Based Criterion for Intangible Assets
c. Approach 3: Subsume All Intangible Assets into Goodwill
d. Approach 4: Do Not Amend the Existing Guidance

Response: Our order of preference is Approach 1, Approach 2, and then Approach 4. We believe the private company alternative is the most appropriate. The guidance is clear and simple to apply. Applying a principles based criterion will generally most closely resemble the private company alternative, but perhaps might make the process unduly complicated.

If neither Approach 1 nor 2 were adopted, we would then prefer no change in the model. We do not support Approach 3 which would result in recognition of no intangibles and create significant challenges in applying such approach when an intangible is subsequently sold.

Question 18: As it relates to Approach 2 (a principles-based criterion), please comment on the operability of recognizing intangible assets based, in part, on assessing whether they meet the asset definition.

Response: We believe Approach 2 is operable. We believe there could be differences in the assets that are recognized among reporting entities, but we do not expect those differences to significantly and negatively affect comparability. We prefer Approach 1 since we expect, in most cases, it will approximate the proposed principles-based approach in Approach 2, but will be easier to implement.

Question 19: Approaches 1–3 assume that subsuming additional items into goodwill would necessitate the amortization of goodwill. Do you agree or disagree? Please explain why.

Response: Subsuming incremental intangibles into goodwill requires amortization of goodwill. We note that this approach will increase the assets with identified useful lives and thus require amortizing that value over such useful lives.

Section 3: Whether to Add or Change Disclosure About Goodwill and Intangible Assets

Question 20: What is your assessment of the incremental costs and benefits of disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss?

Response: We believe that such disclosure provides additional insight into factors considered by the reporting entity. It also allows for the identification of key estimates or judgments supporting the conclusion that goodwill was not impaired. A user of the financial statements can then evaluate whether those conclusions continue to be reasonable. We do not believe the costs would be significant since the reporting entity has already made this evaluation when determining the appropriate accounting.

Question 22: What is your assessment of the incremental costs and benefits of disclosing quantitative and qualitative information about the agreements underpinning material intangible items in (a) the period of the acquisition and (b) any changes to those agreements for several years post-acquisition? Please explain.

Response: We do not believe the incremental costs would be significant to develop and maintain these disclosures. We expect that reporting entities will have that information readily available as they complete purchase accounting. We also believe it is appropriate to disclose changes to those agreements in periods subsequent to the acquisition. The determination of what changes to disclose should be based on the materiality of the carrying amount of the related intangible at date of modification.

Question 23: Are there other changes (deletions and/or additions) to the current disclosure requirements for goodwill or intangible items that the Board should consider? Please be as specific as possible and explain why.

Response: We have nothing to add at this time.

Section 4: Comparability and Scope

Question 24: Under current GAAP, to what extent does non-comparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

Response: We do not believe the difference in the manner for accounting for goodwill and certain recognized intangibles between PBEs, private business entities and not-for-profit entities significantly reduces the comparability of the financial reporting information. Many users ignore the impact of amortization and, instead, focus on results of operations excluding that impact. Further, users generally experience comparability issues when evaluating one entity that makes frequent acquisitions versus another that invests internally. In the former scenario, the statement of financial position would have significant fair value adjustments from each acquisition and the statement of changes in financial position would reflect the impact of amortization of such adjustments. The latter scenario would not result in the same adjustments to the statement of financial position, nor the same amortization. As a result, we believe that users of the financial statements would exclude the impact of acquisitions when comparing entities.

Question 25: Please describe the implications on costs and benefits of providing PBEs with an option on how to account for goodwill and intangible assets and the option for the method and frequency of impairment testing (described previously in Sections 1 and 2).

Response: We believe the costs of providing such an option are limited and we encourage allowing goodwill to be amortized. There is no benefit in allowing a choice to amortize or not and we believe there will be significant consequences to comparability of financial statements if PBEs are afforded the choice to amortize goodwill as users compare financial statements where goodwill is amortized to financial statements where goodwill is not amortized. Further we do not expect many PBEs to amortize goodwill if given the choice because the amortization will likely have material and distorting results.

Question 26: To what extent does non-comparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.

Response: While there are a number of differences between PBEs reporting under GAAP and PBEs reporting under IFRS, we believe that financial statement users generally understand that acquisitions cause adjustments to the financial statements which may produce results that are unique to that entity. This includes the frequency of acquisitions, the manner of funding the acquisition, and the timing of the acquisition. As a result, users adjust financial results for these differences in order to achieve comparable metrics.

Question 27: Please indicate the sources of comparability that are most important to you regarding goodwill and intangible assets. Please select all that apply and explain why comparability is not important to you in certain cases.

a. Comparability among all entities reporting under GAAP (one requirement for PBEs, private business entities, and not-for-profit entities)
b. Comparability among all PBEs reporting under GAAP
c. Comparability among all private business entities and all not-for-profit entities reporting under GAAP
d. Comparability among all PBEs reporting under GAAP and PBEs reporting under IFRS.

Response: Comparability among PBEs reporting under GAAP is most important. These entities should have uniform rules since users are more likely to rely on reported financial information when making decisions. Further, the ability to access entity specific information for PBEs is limited. We recognize that private business entities and not-for-profit entities have different objectives and different criteria for evaluation and, therefore, we do not believe it is necessary for there to be consistency in reporting rules amongst those broad types of business entities. We believe such entities should be permitted to select accounting principles that match PBEs if that is appropriate for them.

Other Topics for Consideration

Question 28: Do you have any comments related to the Other Topics for Consideration Section or other general comments?

Response: We do not have any further comments on this section.

Next Steps

Question 29: Would you be interested and able to participate in the roundtable?

Response: Yes, we would be interested and able to participate in the roundtable.