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June 6, 2011

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

RE: Proposed Accounting Standards Update, "Testing Goodwill for Impairment" (File Reference No. 2011-180)

Dear Ms. Cosper:

We are pleased to provide comments on the most recent proposal to improve the goodwill impairment test ("the Proposal"), and we support the Board's objective to reduce the complexity and cost of the current impairment model. However, we are concerned that the Proposal will not ultimately achieve those objectives. We believe introducing a "more likely than not" qualitative assessment will lead to differences of opinion between preparers, auditors and regulators, particularly since the Proposal lacks an example of the analysis that would be persuasive to all parties. Those disagreements would be most prevalent when the weight of positive and negative factors under consideration seemingly offset. Since it is possible some conclusions may attach too much weight to positive evidence, the Proposal may also delay the timely recognition of impairment charges, which users consider when evaluating the success of prior business combinations.

Therefore, we recommend strengthening the proposed model by evaluating whether it is "probable" that the fair value of a reporting unit exceeds its carrying amount. We believe limiting the qualitative screen to situations in which the facts and circumstances more clearly demonstrate that there is no impairment would still provide significant cost savings by reducing the frequency of Step 1 impairment analyses and the need for third-party valuation reports. Those savings would be immediate and tangible for many private companies.

With respect to IFRS, we note the Board's comment that the Proposal does not improve convergence. However, given the potential cost savings, we agree that the Proposal should be finalized so long as there is no indication that IFRS will be incorporated into the US reporting system in the next few years. However, if the SEC decides to accelerate IFRS adoption when it votes on that topic later this year, the benefits of the Proposal would be less clear assuming the goodwill impairment test would change again upon adoption of IFRS.

Lastly, our responses to the specific questions posed in the exposure draft are set out in the Appendix.

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We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at (312) 616-4667 or Adam Brown, Partner in the National Accounting Department at (214) 665-0673.

Very truly yours,

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Appendix - Questions for Respondents

Please note we have limited our responses to questions posed to auditors specifically, as well as those intended for all constituents.

Question 1: Please describe the entity or individual responding to this request. For example:

- a. Please indicate whether you primarily are a preparer, user, or auditor of financial statements or, if other, please specify.
- b. If you are a preparer of financial statements, please indicate whether your entity is public or nonpublic and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
- c. If you are an auditor, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, nonpublic entities, or both.
- d. If you are a user of financial statements, please indicate in what capacity (for example, investor, analyst, or rating agency) and where in the capital structure you are most focused (for example, debt or equity).

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Question 4: For auditors, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why. Does your response differ based on whether the entity is public or nonpublic?

No, we do not believe the proposed amendments will reduce overall costs and complexity, compared with existing guidance. However, we do believe the cost/benefit assessment differs between public and private entities, largely for practical reasons.

The lack of a quoted stock price for private entities makes Step 1 of the existing goodwill impairment test more costly to perform compared to public entities. In many cases, private companies must develop Level 3 fair value estimates, which may require a significant amount of internal effort and expenditures for third-party valuation reports. The ability to avoid that exercise on the basis of a qualitative judgment will result in tangible cost savings.

In contrast, a public entity's quoted stock price is easily observable. Further, it is almost always a highly relevant consideration when assessing goodwill for impairment. We are concerned the Proposal will create a difficult tension if a public entity concludes that the fair value of its reporting unit more likely than not exceeds its carrying amount when that



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assertion isn't clearly supported by a stock price, or even worse, appears to be contradicted by the stock price.

In this light, we note the Proposal indicates a sustained decrease in share price may be a relevant consideration, but goes on to state in 350-20-35-3G that "the existence of positive and mitigating events and circumstances is not intended to represent a rebuttable presumption that an entity should not perform the first step of the goodwill impairment test." It seems likely that preparers, auditors and regulators may not evaluate the relative importance of a stock price decline (or other factors) consistently under this guidance. Indeed, we perceive no lessening of the potentially conflicting business and legal incentives that exist in the current financial reporting environment that contribute to lengthy and costly debates when differences of opinion are reached in good faith about judgmental conclusions. Moreover, since the Proposal is silent on what type of documentation would be persuasive to all constituents—primarily preparers, users, auditors, and regulators—it is difficult to rule out the possibility of second-guessing. This scenario leads us to conclude that the Proposal will not improve the overall cost and complexity of goodwill impairment testing, although the absence of an observable stock market and attendant regulatory environment for private companies suggests the Proposal's costs may not be as acute for private companies.

In addition, we have had informal discussions about the Proposal with public companies. Several of them have indicated that in "close-call" situations, they would likely proceed directly to Step 1 to reach a conclusion based upon quantitative evidence to avoid the difficulties outlined above. This outcome would be consistent with the Board's observation in BC 29 that many entities have not historically used the option to carry forward a reporting unit's fair value calculation as permitted under existing US GAAP.

Given these challenges, we suggest modifying the proposed qualitative assessment in our response to question 7.

Question 6: Do you agree that the proposed examples of events and circumstances to be assessed are adequate? If not, what changes do you suggest?

We agree the examples are adequate.

Question 7: Do you agree that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear? If not, how can the guidance be improved?

As noted above, we do not believe the Proposal's guidance will consistently lead all constituents to reach the same conclusion. Further guidance would be helpful, perhaps through an example of a preparer's documentation to support its conclusion.

More fundamentally, we recommend increasing the threshold from "more likely than not" to "probable." If an entity is only able to conclude that Step 1 is unnecessary when it is



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probable that a reporting unit's fair value is greater than its carrying value, it will reduce potential disagreements that might otherwise occur in connection with a more-likely-than-not assessment. Similarly, a "probable" threshold would be more likely to preserve, rather than delay, the timing and frequency of impairment charges, which are important signals for financial statement users. This potential exists because even slightly excessive weight attributed to positive factors may inappropriately offset negative evidence under a "more likely than not" threshold.

In addition, we note the Board recently abandoned "more likely than not" in the leasing project in favor of a "significant economic incentive" threshold for evaluating renewal options. We understand many constituents informed the Board that raising the threshold would improve the accuracy of the judgment. Similarly, situations in which legitimate goodwill impairments are avoided or deferred would be less frequent if the qualitative screen only applies when the facts and circumstances are more compelling under a "probable" framework than they would be based on a preponderance of the evidence analysis.

While our recommendation would result in cost savings compared to current US GAAP, we acknowledge the savings would be less for private entities compared to the Proposal. Aside from a more holistic reconsideration of goodwill (which the Board considered and rejected in BC 14-16), we believe a probable threshold would still benefit all constituents, without potentially creating additional costs for some.

Lastly, we observe that our suggested "probable" threshold would be inconsistent with the more-likely-than-not assessment in ASU 2010-28 for reporting units with zero or negative carrying amounts. We believe that outcome is a function of the Board's narrow scoping for each of the two projects, rather than reevaluating the accounting for goodwill in general with a single, consistent impairment principle. More specifically, we understand one of the original purposes of Step 1 in Subtopic 350-20 was to act as a screen to avoid the more costly purchase price allocation in Step 2 that entails the valuation of many individual assets and liabilities. However, now that the Board has concluded the Step 1 screen is also too costly, it has proposed adding an additional, less costly screen in this exposure draft. Since the Proposal would allow companies to conclude it is no longer necessary to perform the initial quantitative screen on the basis of a qualitative judgment, we believe it is appropriate for that conclusion to be limited to clear-cut situations in which there is no impairment.

Question 8: Do you agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities? If not, please explain why.

We do not believe the recognition of goodwill impairments should differ between public and private entities because the nature of an entity's capital (public vs. private) does not affect whether goodwill is impaired. However, we believe the substantive cost/benefit differences that stem from whether or not an entity is subject to public oversight warrant modifying the proposed amendments for all entities as explained in our response to question 7.



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Question 9: Do you agree with the proposed effective date provisions? If not, please explain why.

We agree, assuming the incorporation of IFRS in the United States does not occur in the next few years. Otherwise, we are not certain a short-lived change to the goodwill impairment model would be beneficial, if it was followed in quick succession by a different approach under IFRS.

Other observations:

- We believe the Board intends the Proposal to address situations in which the carrying amount of the reporting unit is positive, while excluding zero and negative equity situations from its scope. If that is correct, paragraph 350-20-35-3 should be revised as follows:
 - “For a reporting unit with a positive carrying amount, an entity may first assess...”Similarly, paragraph 35-3 should contain a cross-reference to paragraph 350-20-35-8A for reporting units with zero or negative carrying amounts. Conforming changes would also be appropriate in the flowchart in paragraph 350-20-55-25 (Example 4).
- We find the proposed guidance in paragraph 350-20-35-3E counter-intuitive, which precludes an entity from proceeding directly to Step 2 of the impairment test if it concludes qualitatively that the carrying amount of the reporting unit exceeds its fair value. In effect, when an entity concludes qualitatively that fair value is less than the carrying amount, additional quantitative evidence is required under Step 1 to corroborate the initial judgment. In contrast, an entity may conclude it satisfies the proposed qualitative assessment without confirming that conclusion quantitatively in Step 1. We note the Board’s observation in BC 21 that it prohibited skipping to Step 2 because an entity must first calculate the reporting unit’s fair value in Step 1. We don’t find this to be a sufficient basis for prohibiting an immediate Step 2 analysis. That is, if the reporting enterprise believes it is most efficient to conclusively resolve an impairment analysis by performing Step 2, we believe that option should be available, and observe it would typically include estimating the fair value of the entire reporting unit. We believe this option should be available for all reporting units, regardless of whether their carrying amounts are positive or negative.