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February 15, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update: *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities* (File Reference No. 2018-320)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. We support the Board's objective to extend the accounting alternatives in ASUs 2014-02 and 2014-18 to not-for-profit entities. We also support the Board's initiative to revisit the subsequent accounting for goodwill and identifiable intangible assets broadly for all entities, and we encourage the Board to develop a single model that would apply to all entities, including not-for-profit entities.

Our responses to the Questions for Respondents are included in the Appendix to this letter.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, David Elsbree Jr. at (212) 909-5245 or delsbree@kpmg.com, or Jody Love at (212) 954-2142 or wlove@kpmg.com.

Sincerely,

KPMG LLP

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Appendix – Responses to Questions for Respondents

Background: Based on our experience with not-for-profit entities, the proposed ASU would have the most significant effect on business-oriented healthcare entities. Therefore our responses focus primarily on those entities and their financial statement users, including bond holders, banks, rating agencies, donors, grantors, board members and management.

Question 1: Would the amendments in this proposed Update reduce overall costs and complexity compared with existing guidance? If not, please explain why.

We believe that the proposals would reduce the cost and complexity for not-for-profit entities that have goodwill, customer-related intangible assets or non-compete agreements on their balance sheets. We expect that adopting the alternatives would likely reduce the frequency of goodwill impairment testing and the amount of impairment charges for those entities, because the goodwill balance would diminish over time through amortization.

Question 2: What effect would the proposed amendments have as it relates to the decision usefulness of financial reporting? For example, would the proposed amendments decrease, increase, or not affect decision usefulness? Please explain.

We believe the financial reporting that would result from the proposals would not significantly affect the decision usefulness of the financial statements of not-for-profit entities. Bond holders and banks generally require compliance and rating agencies to evaluate an entity’s ability to comply with certain financial covenants for outstanding indebtedness related to liquidity and operating performance (e.g. days cash on hand and debt service coverage ratio). Those ratios usually exclude non-cash expenses such as depreciation and amortization expense, impairment charges and other non-cash transactions. Therefore, we would not expect that bond holders, banks and rating agencies would view the entity’s financial reporting much differently under the proposed amendments. We also believe that donors and grantors focus primarily on the mission and purpose of not-for-profit entities when deciding whether to make contributions or grants, rather than on the accounting implications of goodwill, customer-related intangible assets or non-compete agreements.

Question 3: Should the proposed accounting alternatives in Topics 350 and 805 be extended to not-for-profit entities? If not, which aspects of the accounting alternatives do you disagree with and why?

Yes, we support extending the proposed accounting alternatives to not-for-profit entities while the Board reconsiders the subsequent accounting for goodwill and identifiable intangible assets broadly for all entities.

Question 4: What reasons would prevent a not-for-profit entity from adopting the proposed alternatives on these Topics?

We are not aware of specific reasons that would prevent a not-for-profit entity from adopting the proposed alternatives. However, notwithstanding our response to Question 2, we believe that some not-for-profit business-oriented healthcare entities may elect not to adopt the proposed accounting alternatives because they may be concerned about the lack of comparability of their operating results with similar for-profit healthcare entities, including those that are public business entities, as a result of an entity's operating income being reduced by goodwill amortization expense.

Question 5: Do you agree with the optionality of the accounting alternatives? If not, why do you think the accounting alternatives should be required?

Yes. In the absence of a single model for subsequent accounting for goodwill and identifiable intangible assets, we agree with the proposal to make it optional for a not-for-profit entity to adopt the accounting alternatives. We believe that allows a not-for-profit entity to balance the needs of its financial statement users with the costs of accounting for goodwill, customer-related intangible assets or non-compete agreements.

Question 6: Accounting Standards Update No. 2016-03, Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance, removes the effective date of these accounting alternatives for private companies. This was done to accommodate those companies that initially chose not to elect those alternatives because of public company exit strategies and may wish to later adopt the alternatives without having to establish preferability if their strategies subsequently change. Do not-for-profit entities experience changes in circumstances that would similarly warrant an indefinite effective date? If so, please describe those circumstances in detail.

Yes. We believe that certain not-for-profit entities experience changes in their circumstances that would similarly warrant an indefinite effective date. For example, a not-for-profit business-oriented healthcare entity may have only minimal goodwill or intangible assets at the adoption date and therefore elect not to adopt the accounting alternatives at that time. However, that entity may later change its business strategy, which could result in future acquisitions with significant goodwill, customer-related intangible assets or non-compete agreements. That change in strategy may result in management wanting to adopt the accounting alternatives at that later time.

Question 7: The Board recently added to its technical agenda another project on these Topics that, among other issues, will examine the amortization period for goodwill if the Board decides to pursue amortization as an alternative for public business entities or as a requirement for the system overall. The Board could decide that amendments developed as part of that project also should apply to not-for-profit entities within the scope of this proposed Update. Thus, it is possible that entities electing these alternatives could be subject to future changes on the same Topics. Are there any reasons why the Board should exclude not-for-profit entities as part of that other project? If so, please explain why.

No. The Board should not exclude not-for-profit entities from the other project on its technical agenda. We support the Board's initiative to revisit the subsequent accounting for goodwill and identifiable intangible assets broadly for all entities, and we encourage the Board to develop a single model that would apply to all entities, including not-for-profit entities.