

Comment Letter Summary on the Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*

1. The July 15, 2020 Board meeting is a decision-making meeting. The purpose of this memo is to present comment letter feedback received on the Invitation to Comment (ITC), *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*. The ITC was issued on July 9, 2019, with a 90-day comment period ending on October 7, 2019. This memo provides a summary of the feedback from the comment letters received in response to the document. Accordingly, this memo is intended to be read in conjunction with the ITC.
2. This memo is organized as follows:
 - (a) General summary of comments received
 - (b) Nature of goodwill
 - (c) Recent amendments to the subsequent accounting for goodwill:
 - (i) Step 0: Qualitative screen
 - (ii) Eliminating Step 2.
 - (d) Subsequent accounting for goodwill:
 - (i) Impairment-only model
 - (ii) Amortization model
 - (iii) Amortization period
 - (iv) Other models for the subsequent accounting for goodwill.
 - (e) Potential changes to impairment testing:
 - (i) Timing and frequency of impairment testing
 - (ii) Level at which impairment testing is performed.
 - (f) Comparability:
 - (i) Comparability between U.S. Public Business Entities
 - (ii) Comparability between GAAP and IFRS Standards
 - (iii) Comparability between U.S. entities.
 - (g) Disclosures about goodwill:

- (i) Facts and circumstances associated with an impairment test not resulting in impairment loss
 - (ii) Other disclosures about goodwill.
- (h) Other topics for consideration
- (i) Recognition of identifiable intangible assets:
 - (i) Whether identifiable intangible assets are sold separately
 - (ii) Approaches for the recognition of identifiable intangible assets.
- (j) Disclosures about intangible assets:
 - (i) Agreements underpinning intangible assets
 - (ii) Other disclosures about intangible assets.
- (k) Appendix A: Comment letter respondents.

General Summary of Comments Received

3. The comment period for this ITC ended on October 7, 2019. One-hundred three letters were received, including letters that were submitted through January 16, 2020. Two of those letters were rescinded after their submission; the comments from the rescinded letters are not considered in this summary.
4. The following table provides information on the composition of the 101 comment letter respondents by respondent type:

Respondent Type*	
Academic	6
Auditor	10
Consultant/Other	3
CPA Society	6
Individual	13
Preparer	37
Professional Association	4
Standard Setter	2
Trade Group	5

User	3
Valuation Professional	12
Total:	101

* please see Appendix A for respondent categorization

5. The staff summarized the respondents' comments on the basis of the relevant themes observed. Not all respondents addressed every question. Some focused only on specific questions and topics, while others answered all questions and provided detailed comments for each area of the document. The level of detail in the feedback received by each respondent varied depending on the topic. In response to several alternatives presented in the ITC, respondents often noted agreement or disagreement with several of the alternatives or provided contingent views. Others noted a specific ordering to their preferences among alternatives. The staff notes that those subtleties in respondents' comments are included to the extent possible, but that the comment letter summary as a whole intends to capture the themes observed, rather than each specific respondent's preferences.
6. Additionally, the staff notes that metrics referenced throughout the document are approximate and are intended to support the general themes among respondents, rather than provide precise metrics. This document does not provide the staff's analysis or conclusions related to the comments provided by the respondents.

Nature of Goodwill

7. To provide context for the ensuing discussion on the subsequent accounting for goodwill, the ITC asked respondents to consider the conceptual nature of goodwill. Stakeholders' views on the conceptual nature of goodwill often aligned with their views on the appropriate subsequent accounting for goodwill. Accordingly, respondents discussed the nature of goodwill in supporting their views on the various models proposed in the ITC. Those comments are included in the sections that follow related to the subsequent accounting for goodwill. Other general comments on the nature of goodwill are included below.
8. Seventy-seven respondents provided comments on the conceptual nature of goodwill. Respondents often discussed their views of what goodwill represents and where its value is derived, while others stated their positions on the current definition of goodwill.
9. Some respondents noted that goodwill's value represents a capital outlay for the opportunity of future economic benefit. For example, an academic respondent stated that goodwill refers to the *opportunity* for future economic benefit, rather than an explicit benefit, because expected synergies often do not materialize. Others explained that the benefit goodwill provides frequently requires additional investment of financial or nonfinancial resources to be transformed into identifiable

assets. Similarly, a preparer noted that it is increasingly difficult to differentiate between acquired goodwill and internally generated goodwill.

10. Eleven respondents generally agreed with the current definition of goodwill as stated in the Master Glossary. This definition states that goodwill is “an asset representing the future economic benefits arising from other assets acquired in a business combination or an acquisition by a not-for-profit entity that are not individually identified and separately recognized. Conversely, two respondents asserted that goodwill does not represent an asset at all because it does not represent a present right or economic benefit.
11. Several respondents, based on their experiences in practice, cited major sources of the value of goodwill. For example, several respondents noted that the value of goodwill is derived from the workforce acquired in an acquisition. Other respondents often discussed the components of goodwill as noted in paragraph B313 of the basis for conclusions for FASB Statement No. 141 (Revised 2007), *Business Combinations*. Accordingly, respondents often cited the following sources of the value of goodwill:
 - (a) Excess of fair values over the book values of the acquiree’s net assets at acquisition
 - (b) Expected synergies created by the acquisition, including incremental increases in earnings potential
 - (c) Going concern value
 - (d) Overpayment by the acquirer.
12. Some respondents noted that while the components of goodwill are generally consistent across the market, the specific goodwill recognized in a given business combination transaction may be made up of different components. For example, two respondents explained that a transaction’s goodwill can be made up of various components or specifically one component.
13. Several respondents also commented on the separability of the components of goodwill. Those respondents commented on the difficulty of separately identifying the value of each individual component. On this topic, one preparer expressed concern that a model that separates components would be impractical even among components that have finite and indefinite lives.
14. Three respondents stated that the term *goodwill* is problematic and noted that the Board should further clarify what is represented by goodwill and intangible assets.

Comments on the Life of Goodwill

15. In discussing the nature of goodwill, respondents expressed their views on the useful life of goodwill. Views were mixed such that some respondents stated that goodwill is a wasting asset while others, especially valuation professionals stated that goodwill is a nonwasting asset.

16. Pursuant to their view of goodwill as a wasting asset, seven respondents noted that the benefit goodwill represents is finite and that its value is realized over time. More specifically, one preparer from the banking industry expressed concern about instances in which the benefit from goodwill is fully realized through earnings, but a goodwill balance is maintained indefinitely on the balance sheet under the current model. A CPA society shared a similar concern that goodwill is consumed over time but regenerated through continued operations.
17. Of those who noted that goodwill is a nonwasting asset, six respondents stated that the value of goodwill originates from the going concern assumption that a business operates into perpetuity. Accordingly, two valuation professionals cited that the value of goodwill is linked to terminal value, which represents cash flows modeled into perpetuity and is used to derive the proposed purchase price of the acquiree. Another valuation professional noted that it assumes that new assets will continue to be created indefinitely, making goodwill a nonwasting asset. Conversely, a few respondents opposed those assumptions of perpetuity in valuation models, noting that this view is of little relevance in reality.

Recent Amendments to the Subsequent Accounting for Goodwill

18. To better understand the current landscape of financial reporting as related to the subsequent accounting for goodwill, two questions in the ITC asked respondents about two recent Updates made to the subsequent accounting for goodwill. This includes Accounting Standards Updates No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which introduced a qualitative screen or Step 0 to the impairment testing of goodwill, and No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminated Step 2 of the impairment test. Given those recent changes, the ITC asked respondents to consider whether the amendments reduced the cost to perform the impairment test and whether they reduced the usefulness of the financial information reported.

Step 0: Qualitative Screen

19. Fifty-six respondents commented on the application and use of Step 0. A majority noted that Step 0 has been effective as part of the Board's simplification efforts to reduce cost and some noted that Step 0 has been ineffective in reducing cost.

Step 0 Was Effective

20. In discussing the effectiveness of Step 0, a majority of respondents noted that the qualitative test provides cost relief for preparers in performing the impairment test. This view was shared by many respondents, including preparers, auditors, CPA societies, valuation professionals, and professional associations. A preparer noted that a qualitative assessment can be performed with fewer and less

costly resources and executed in a more timely manner than a quantitative assessment. Many respondents noted that the cost savings associated with Step 0 are most often evident for entities that have a significant cushion between the carrying amount and fair value of a given reporting unit.

21. Several respondents overall noted that Step 0 has been favorable for the cost-benefit balance, but noted that more can be done to simplify the subsequent accounting for goodwill. One preparer explained that under the current guidance, preparers continue to perform the annual impairment test even in instances in which the risk of impairment may be remote. Others commented that while Step 0 provides the opportunity for reduced cost, the cost reduction is not universally experienced by all preparers. Some respondents clarified that the cost savings related to Step 0 can be entity specific or only available during favorable economic times, while others noted that there are costs associated with auditing Step 0. Those reasons are similar to the costs discussed by those who disagreed with the effectiveness of Step 0 as explained below.

Step 0 Was Ineffective

22. Those respondents who noted that Step 0 has been ineffective in reducing costs often stated that there were minimal cost savings observed following the implementation of Step 0.
23. Some observed that the difference in cost between applying the qualitative screen and performing a quantitative impairment test is insignificant. A few respondents reported an increase in costs after Step 0 was introduced. For example, one consultant stated that there are instances in which entities spend significant time and effort performing the qualitative screen but may determine that Step 1 of the impairment test is still necessary. In addition, according to a valuation professional, the qualitative screen is more challenging for audit firms and preparers to audit as compared with a quantitative analysis. Similarly, several respondents noted that Step 0 may increase preparation costs because it requires documentation of any changes in the underlying assumptions since the last quantitative test was performed. Those respondents explained that documentation increases costs associated with Step 0 and that the qualitative screen may be just as costly as performing a quantitative impairment test. A few respondents noted that because of this additional documentation and effort, some preparers are reluctant to use the qualitative screen except in circumstances in which there is little doubt that the goodwill is not impaired.
24. Many respondents also noted that Step 0 has increased audit costs. Those respondents stated that the qualitative screen adds a subjective component to the impairment test and is heavily audited by external and internal auditors to provide assurance around this subjectivity, thereby increasing audit costs. A few respondents, including three auditors, explained that the cost reduction associated with Step 0 also is limited because the qualitative screen can be performed only every few years because management must periodically support the qualitative test with a recent quantitative analysis

Information Utility as a Result of Step 0

25. Approximately a quarter of all respondents noted that Step 0 has not reduced or affected the decision usefulness of the impairment test. A CPA society explained that Step 0 has not reduced the level of information provided by the impairment test because the qualitative screen is often applied only to those reporting units that are unlikely to be impaired. In cases in which impairment may be more likely, one valuation professional added that the information utility also is retained because Step 1 of the impairment test is still required in those cases. Another preparer noted that users of financial statements still receive information on (a) whether an entity passed or failed the impairment test and (b) the evaluation method applied in the impairment test, whether qualitative or quantitative.
26. An academic respondent provided academic research on the qualitative screen. Two studies cited by the respondent reach slightly different conclusions, but the respondent overall noted that the research did not demonstrate that the additional discretion the qualitative screen provided has had an overall negative effect on financial reporting.¹ Those papers referenced by the academic respondent concluded that the additional discretion afforded by the qualitative screen is not being used opportunistically by managers. On the basis of the academic evidence, the respondent noted that Step 0 has not resulted in a reduction in the overall usefulness of financial reporting information for users.
27. On the contrary, a few respondents stated that there is or could be a notable reduction in the information utility of the impairment test as a result of Step 0. According to one preparer, the qualitative assessment does not provide the same level of comfort in supporting a conclusion as does the quantitative analysis. According to one preparer, the qualitative screen does not provide users with any information because use of and information associated with the qualitative screen are generally not disclosed. According to one valuation professional, the qualitative test may create confusion for investors related to review of macroeconomic trends as opposed to only more detailed and entity-specific metrics.

¹ Adame, K. 2019. Step zero: Determinants and implications of reliance on the qualitative goodwill impairment assessment. Working paper, University of Washington.
Black, D., J. Krupa, and M. Minutti-Meza. 2019. The optional qualitative assessment in impairment tests. Working paper, University of Nebraska-Lincoln and University of Miami.

Other Comments on Step 0

28. Several respondents noted that the effectiveness of Step 0 depends on specific facts and circumstances. Respondents discussed several factors that can determine whether the qualitative screen simplifies the analysis without significantly diminishing the informational utility of the impairment test. According to an auditor, this analysis largely depends on entity-specific circumstances, such as macroeconomic factors affecting the entity, the reporting unit structure, the amount of internally generated goodwill, the amount of excess of fair value over carrying amount in the previous quantitative goodwill impairment test, and the length of time since the last quantitative test.
29. Concerning the level to which Step 0 has been implemented, one valuation professional discussed a recent draft study that found that of the entities that recorded the top 30 impairments in the 2018 calendar year, more than one-third utilized Step 0 in the last 2 years. Conversely, for one preparer, the decision to perform a quantitative test over Step 0 is related to the rigor of the quantitative test to support the pace of acquisitions.

Potential Improvements to Step 0

30. In discussing Step 0, several respondents noted ideas for improving the qualitative assessment. Some respondents suggested changing or clarifying guidance, while others suggested applying the qualitative test, as described below.
31. A few respondents observed that the events and circumstances included in the guidance for Step 0 are frequently used by preparers similar to a checklist, causing frustration and uncertainties. To avoid this issue, one valuation professional suggested simplifying and reducing the examples provided in the guidance for Step 0 to improve the process and further reduce cost. Another valuation professional instead suggested clarifying those events and circumstances.
32. A couple of respondents also suggested adding implementation guidance or examples for the application of Step 0. One auditor commented that the current guidance should be improved to more specifically explain and provide examples of what conditions suggest a temporary decline in performance to assist practitioners in performing the qualitative test.
33. While a few respondents noted that the scope of Step 0 could be improved, two respondents more specifically discussed the applicability of the qualitative assessment. A valuation professional noted that the current model requires too much judgment in determining when the qualitative test is reasonable to apply. Those respondents, therefore, noted that the qualitative screen should be reserved for cases in which it is obvious that there is no impairment or there is a low risk of impairment.

34. A few respondents suggested a quantitative approach to Step 0, rather than the existing qualitative approach. One respondent recommended a discrete triggering approach, such as a prescribed quantitative trigger that monitors historic market multiples against invested capital. Similarly, two valuation professionals suggested more quantitative metrics. Both respondents suggested adding a calculation of entity-specific metrics, such as changes in cash flows, market capitalization, or a carrying value to EBITDA ratio to identify impairment issues. Several respondents stated that there is adequate guidance and they had no proposed recommendations for Step 0. Other respondents further noted that the important concepts underlying Step 0 are sound and that any changes in guidance to improve the burden in the process should come from the auditing and regulatory community, rather than from the FASB.

Eliminating Step 2

35. The amendments in Update 2017-04 eliminated Step 2 of the goodwill impairment test. Approximately 60 respondents provided comments on that recent guidance. Of those, a majority of respondents commented that eliminating Step 2 was effective because it relates to the Board's simplification efforts to reduce cost. A small group of respondents disagreed that eliminating Step 2 was effective in reducing cost.

Eliminating Step 2 Was Effective

36. Most respondents noted that eliminating Step 2 was effective, citing reasons related to costs. Those respondents generally discussed the time consuming and complex nature of Step 2 and noted that the assessment required by Step 2 was particularly costly and onerous. For example, an auditor explained that Step 2 is often the most difficult and time consuming area of the goodwill impairment test and that its elimination has reduced the costs borne by preparers to value all the assets in a reporting unit as was required in performing Step 2. A valuation professional noted that eliminating Step 2 also eliminated the incremental scope and fees associated with this portion of the goodwill impairment test.
37. While respondents generally noted that eliminating Step 2 reduced cost and simplified the impairment test, numerous respondents still noted that costs and complexity may persist in the current impairment model. Some of the reasons cited by respondents are as follows:
- (a) The cost and effort to first determine if there was impairment under Step 1 remains unchanged.
 - (b) There likely will be increased auditor scrutiny on Step 1, thereby mitigating some of the cost reductions associated with the elimination of Step 2.
 - (c) Some fact patterns continue to pose circumstances in which significant analysis is needed to conclude on whether there is a goodwill impairment.

Eliminating Step 2 Was Ineffective

38. Approximately 10 respondents noted that eliminating Step 2 was ineffective in simplifying the impairment test. Those respondents generally noted that eliminating Step 2 either produced minimal cost savings or may have increased costs.
39. Some respondents noted that cost savings as a result of eliminating Step 2 have been minimal. For example, a few respondents noted that many entities under typical circumstances may pass the Step 1 test and not be subject to Step 2. Thus, eliminating Step 2 has a limited effect for those entities. Two respondents observed that Step 0 and Step 1 continue to be the more time intensive and heavily audited areas of the goodwill impairment test. One preparer noted that existing business processes leverage the fair value assessments required in Step 2, such that preparers still incur those costs.
40. Several respondents also noted that there could be increased costs as a result of eliminating Step 2. Most of those respondents noted that the one-step goodwill impairment test likely would face additional scrutiny with the elimination of Step 2. Some respondents observed that entities may be more likely to repeat Step 1 in the future as the impairment charges likely would leave minimal cushion for future years as compared with the previous two-step approach. One CPA society explained that once an initial impairment is recorded under Step 1, future goodwill impairment test may become even more difficult and costly.

Information Utility as a Result of Eliminating Step 2

41. Although a majority of respondents noted that eliminating Step 2 reduced costs, views were mixed on whether eliminating Step 2 affected the information-utility of impairment information. Some respondents noted that information utility has not been diminished. A few respondents explained that investors are more concerned about the existence of an impairment rather than the specific amount of impairment or the exact technique used. Two respondents stated that Step 2 did not reflect the economics of business operations and, thus, its removal did not affect information utility. A valuation professional cited a recent publication of theirs that found that of the entities that recorded the top 30 impairments in 2018, 29 of them had adopted Update 2017-04, thereby demonstrating that eliminating Step 2 has not decreased the decision usefulness of the impairment test. Additionally, a valuation professional noted that the result of eliminating Step 2 is a test that is more intuitive from an investor perspective.
42. Other respondents noted that there may be a reduction in accuracy and decision-useful information as a result of eliminating Step 2. A preparer noted that a one-step impairment test could result in a less precise impairment amount, while others observed that impairment charges likely will be greater and could be misleading with Step 2 being eliminated. A valuation professional explained

that without Step 2, the identifiable intangible asset values are marked down without the partial offset provided by the fair value of the reporting unit.

43. One CPA society questioned whether the information-utility of impairment charges for users would differ if the impairment was calculated using Step 1 versus Step 2.

Other Comments on Eliminating Step 2

44. Some respondents provided more general comments related to eliminating Step 2. For example, two respondents stated that the amendments in Update 2017-04 have not been adopted long enough to provide sufficient information about its effectiveness.
45. Two valuation professionals noted that Step 2 is rarely used in the current period of economic expansion and observed that preparers that have not recorded impairment charges in recent years have yet to realize the effects of the change.

Subsequent Accounting for Goodwill

46. In response to questions posed to respondents in the ITC, respondents considered the model for the subsequent accounting for goodwill and provided comments on the impairment-only model as well as a model in which goodwill is amortized. Comments on each of those models are discussed below. Respondents who were neutral regarding either impairment or amortization noted reasons that are consistent with those reflected in the following discussion. Thus, those neutral comments are not discussed separately.

Impairment-only Model

47. Ninety respondents provided comments on an impairment-only model for the subsequent accounting for goodwill. Given that this is the current model applied for the subsequent accounting for goodwill, most respondents discussed an impairment-only model in the context of the current model. Respondents had mixed views on this topic such that 35 respondents agreed with an impairment-only model, 47 disagreed with this model, and 8 respondents were neutral on the topic.

Support for an Impairment-Only Model

48. Those who supported an impairment-only model generally noted that this model provides users with benefits through more decision-useful information that outweighs the costs, holds management accountable, aligns with economic reality, and is a useful exercise for management. The following discussion explains those respondents' reasoning.

Information to Users

49. Nearly two-thirds of respondents who supported this model discussed the decision-useful information that it provides for users. Several respondents noted the discipline and robustness of the current impairment test in producing accurate and high-quality information because the assumptions inherent in the test are corroborated by valuation firms. Another respondent, a CPA society, stated that impairment is the most objective way to provide investors with decision-useful information. Two respondents clarified that this information is not only useful for equity investors, but also for lenders and bond holders.
50. In discussing the specific information that an impairment model provides, many noted that an impairment charge offers insight into the value and performance of an entity and provides a signal for investors. A few respondents discussed that impairments highlight areas of financial distress or operational deficiency within the business. Other respondents stated that impairment charges communicate changes in management's expectations, noting that an impairment charge demonstrates when a segment or reporting unit is underperforming against management's expectations at the time of the acquisition and provides evidence of whether the acquisition was successful. Two valuation professionals discussed the value creation and destruction that can be observed through impairment. Those respondents stated that impairment provides a reliable mechanism to measure value destruction and that the absence of impairment conveys that value has been maintained or increased.
51. Other respondents discussed how impairment information provides insight into management's skill and ability. Some respondents noted that impairment allows users to evaluate management and their acquisition strategies and enhances their ability to effectively allocate capital, integrate acquisitions, and create shareholder value. One user noted that the initial valuation and subsequent stewardship of goodwill is one of the most useful ways to assess strategic judgment and management skill, including whether management overpaid or failed to realize predicted synergies.
52. In addition to information about management, some respondents highlighted that impairment information is useful because of its forward-looking nature. Three respondents stated that the forward-looking or predictive information about expected future cash flows contained in impairment information is often critical for investors.
53. One individual discussed how impairment provides an important benchmark across companies and industries given that impairment testing is an independently tested analysis that is provided cross-sectionally.
54. In discussing the information impairment provides, a few respondents noted that impairment testing also produces helpful disclosures and footnotes. One valuation professional noted that these footnotes include discussion of the important assumptions made in the impairment test and stated

that these assumptions convey valuable information given the expertise of the valuation firms that ensure they reflect market participant assumptions. An individual explained that disclosures about impairment testing help indicate how aggressive management is in its analysis.

55. As evidence of the informational utility of impairment testing, four discussed stock market reactions following impairment announcements, whether through heightened trading volume or stock price movements. One valuation professional discussed a study that it performed to evaluate the relationship between impairment charges and equity trading activity. That respondent explained that the findings of that study indicate a relationship between impairment charges and decreases in market capitalization and suggest that impairment information is highly meaningful and decision useful. A few respondents discussed a recent significant decline in a major consumer product company's share price upon the announcement of goodwill impairment as an example of a stock market reaction to impairment. Those respondents stated that although it is difficult to identify a single reason for a stock price reaction, this reaction indicates that there is potentially significant information in impairments. One valuation professional noted that this entity with the recent impairment may have passed the impairment test if an amortization period of 15 years had been applied to the entity's acquired goodwill. That respondent explained that the cumulative amortization likely would have been similar to the actual impairment announced such that an impairment test at that time may not have resulted in impairment.
56. An academic respondent evaluated informational utility through a comparison of goodwill before and after the issuance of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and discussed research suggesting that goodwill is more informative and value relevant after Statement 142.² That research demonstrates that impairment testing under Statement 142 may have provided useful information to the markets and reduced the level of idiosyncratic return volatility in publicly traded firms. Accordingly, the respondent noted that the research suggests that the impairment model in Statement 142 improved the informativeness and value relevance of goodwill by reducing firm risk and creating an environment of more effective risk pricing.
57. Although those in opposition of impairment frequently cite that impairment is a lagging indicator, several respondents addressed this comment in noting their support for impairment. One valuation professional explained that the lagging nature of impairments may be related to the asymmetric treatment of goodwill. That is, because goodwill can only be written down, entities may be more cautious before writing down goodwill for short-term underperformance. Respondents generally

² Kimbro, Marilka B., and Danielle Xu. "The accounting treatment of goodwill, idiosyncratic risk, and market pricing." *Journal of Accounting, Auditing & Finance* 31, no. 3 (2016): 365-387.

explained that even if impairment charges are sometimes a lagging signal, they still provide relevant information. Specifically, two respondents stated that the overall information conveyed by impairment is communicated most quickly and clearly by an impairment charge. An individual noted that even confirmatory information is still helpful in providing information about management's capital allocation ability, noting that the lagging nature of impairment may be an issue with the application of the standard rather than the standard itself. A valuation professional noted that the periodic test cannot practically react as quickly as the capital markets and stated that the events that gave rise to impairment still took place and should be measured. A trade group similarly stated that the purpose of impairment testing is not to provide predictive value but to be protective and provide assurance that declines in asset values have been recognized as they occur.

- 58. A user stated the opposite view, that is, that impairment accelerates information dissemination in some cases as entities strive to be forthcoming in advance of "impairment surprises" before annual testing.
- 59. While non-GAAP adjustments are also often cited as a reason against impairment testing, a few respondents in favor of an impairment-only approach noted that making non-GAAP adjustments related to impairment charges is the only way to make comparisons in the short term, and that analysts do so with the objective of assessing an entity's capacity to generate future cash flows. One individual noted that the practice of allowing non-GAAP adjustments to prompt changes to GAAP is not supportable, explaining that standards are not designed to determine how information is used, but rather to provide the information.
- 60. Given the information that an impairment model provides to users, some respondents discussed the potential effects of removing this information. An individual expressed concern that moving away from an impairment model would disproportionately affect investors with limited information and resources, such as individual investors and small fund managers. Some respondents noted the costs of reduced information and decreased transparency to investors and the public, including one valuation professional that noted that the costs of lost information would outweigh any reduced operational or other financial costs to preparers.

Comments Related to Cost

- 61. Twenty respondents supported impairment testing through discussion of the related costs, overall noting that the benefits impairment testing provides outweigh the costs. A couple of respondents acknowledged the costs of impairment testing to reporting entities but noted that this cost is justified given the impairment information that investors, lenders, and other stakeholders rely upon.
- 62. Several respondents, including four valuation professionals commented that the costs of impairment testing are insignificant. One valuation professional noted that costs are not significant when compared with overall entity value, profitability, or audit fees, explaining that the cost of hiring

a valuation firm for an impairment test of 1 to 2 reporting units is usually less than 1/100th of 1 percent of the parent entity's total value or less than 1/10th of 1 percent of EBITDA. Another valuation professional stated that costs are minimal and that impairment can easily be assessed with a balance sheet and income statement. Others noted that entities can afford the associated costs or stated that many firms have expertise in-house for business valuations and that third-party firms are available for those services. Alternatively, others noted that the costs of impairment testing should be considered similarly to other annual costs such as audit and tax fees. Preparers provided comments on costs as well. One noted that the administrative costs are not incremental because the assessment draws from inputs that are already embedded in an entity's accounting processes. Another stated that the costs are reasonable for it, given that it makes few acquisitions and a majority of the purchase price of those acquisitions is allocated to the identifiable assets acquired.

63. Others observed that costs of impairment testing have declined because of recent amendments to the subsequent accounting for goodwill, including the addition of Step 0 and removal of Step 2. Those amendments and their effects are discussed in detail in the sections addressing recent amendments to the subsequent accounting for goodwill.

Holding Management Accountable

64. Some respondents noted that impairment is beneficial because it holds management accountable for its decisions. Those respondents stated that impairment adds discipline to the deal-making process and requires management to carefully evaluate investments, thereby making management more accountable for capital allocation decisions and helping to protect investors. A valuation professional noted that impairment testing also holds management accountable upon taking an impairment charge because it requires management to answer challenging questions about what created the impairment.

Relevant Management Exercise

65. Two respondents supported impairment because of its benefit to preparers. Those respondents stated that the annual impairment test is a relevant exercise that is useful for management. One respondent asserted that some preparers would continue evaluating reporting units at this level even without a requirement to do so.

No Change Is Warranted

66. Some respondents commented that a change to the model is not warranted. Some of those respondents stated that the current model is reasonable and functioning appropriately and noted that the existing model is rooted in sound financial and valuation principles, is well understood by

the user community and is perceived as an important attribute of management accountability. A preparer also discussed the relevance of previous conclusions reached in Statement 142, stating that those conclusions are still appropriate today and that the diligence performed before its issuance is still valid today. A few respondents questioned the appropriateness of a change in the accounting model, including two respondents that noted that changes may not achieve the same cost-benefit balance as the current model. A preparer stated that there is neither compelling conceptual evidence for or against amortization nor a clear argument regarding cost-benefit balance; therefore, stakeholders' differing perspectives do not justify a periodic shift in standards.

Other Considerations

- 67. Several respondents justified support for impairment testing through discussion of the pitfalls of an amortization model. Those comments are discussed in the section detailing comments in opposition to amortization.
- 68. Some respondents supported impairment pursuant to their view of goodwill and the economics of the transaction. Several respondents noted that goodwill does not have a finite life and is not wasting and, therefore, should be assessed for impairment. A valuation professional noted that impairment, while asymmetric, is more closely aligned with the variability in the value of goodwill given the rise and fall in its value. A valuation professional stated that removing impairment would fail to match expenses and impairments with the economics, thereby leading to potential misrepresentations and opportunities for earnings manipulation. One preparer stated that impairment is an appropriate mechanism to ensure the carrying value of goodwill remains recoverable. A user commented that an impairment captures a real economic event that caused goodwill to decrease in value.

Proposed Changes to the Impairment Model

- 69. Several respondents, although they supported impairment overall, noted that improvements could be made to the model. One valuation professional said that it would favor revising the impairment testing to allow for a step change rather than a complete overhaul of the model and proposed a hybrid model whereby goodwill would be tested for impairment annually for the first three years, followed by trigger-based testing only. A preparer noted that simplifying the impairment test would adequately reduce costs. An auditor stated that the Board should consider requiring the separation of more identifiable assets from goodwill that may have shorter useful lives such that the remaining balance would include mainly synergies with a truly indefinite life.

Opposition to an Impairment-Only Model

70. Forty-seven respondents opposed an impairment-only model for the subsequent accounting for goodwill. Those who opposed this model frequently noted the costs of impairment and the lack of decision-useful information that it provides.

Cost Considerations

71. Nearly all of those respondents commented on the costs of impairment; most explicitly noted that the costs outweigh the benefits of an impairment-only model. Respondents cited many drivers of cost in the impairment model, including the following:
- (a) Subjectivity in application and development of estimates
 - (b) Documentation, controls, and audit costs
 - (c) External valuation specialists
 - (d) Subjectivity in application and development of estimates
 - (e) Internal resources to develop models and perform the impairment test
 - (f) Identifying and allocating information by reporting unit.
72. Regarding subjectivity, some respondents noted that the level of management judgment required to estimate the fair value of reporting units increases costs. One standard setter noted that there is a limited number of applicable and observable inputs with which to conduct the test, thereby increasing its subjectivity. A few stakeholders also noted that subjectivity increases the level of auditor attention required. A preparer commented that increased subjectivity means that more effort is required to align operations, internal stakeholders and auditors on the results of the impairment test. Another preparer explained that making reliable fair value calculations is increasingly burdensome and difficult once the entity has been integrated, increasing the level of judgment and cost associated with the impairment test.
73. Approximately 15 respondents discussed the costs associated with documentation, auditing, and controls and noted that auditors are heavily involved in the process given the level of audit risk, thereby introducing significant incremental time and effort to satisfy external auditors. Preparers commented on the additional scrutiny of auditors and regulators in this area and noted that complying with and documenting the forecasting process and the results of internal controls over subjective judgments is burdensome and costly. One preparer discussed the heightened risk of failed audits associated with the current impairment testing model because there is high estimation uncertainty in this area that increases the level of focus from the PCAOB. That preparer explained that auditors are spending a disproportionate amount of time and money compiling information and

performing procedures in this area relative to the amount of financial statement risk for the subsequent accounting for goodwill.

74. Several respondents discussed the significant level of documentation required for the impairment test. A preparer in the banking industry explained the significant level of documentation required for its Step 1 goodwill impairment evaluation. That preparer noted that compliance with the impairment test required more than 600 pages of work papers and more than 2,500 hours to audit a \$1 billion goodwill balance made up of 16 transactions that occurred between 12 and 23 years previously. The respondent expressed concern that auditors are requiring increasing levels of documentation and quantitative support and noted that the number of hours and workpapers required to justify testing has increased in the last several years. Another preparer stated that the longer it has been since the last quantitative test, the more robust documentation is required to be.
75. Some respondents noted costs specific to internal resources. Those respondents explained that impairment testing requires time for internal employees to perform their analyses, develop inputs to the forecasting model, and perform the test. Those costs relate to developing cash flow, discount rate, and other key assumptions. A preparer explained that the entity dedicates several full-time equivalent staff as resources for a large portion of its third quarter to perform its annual impairment test.
76. Twelve respondents noted the costs of hiring external valuation specialists. An auditor noted that third-party specialists are often hired to assist with key assumptions, perform valuations, develop and maintain appropriate controls, and support other assertions and judgments. An individual noted that those costs can be especially significant for smaller public companies.
77. A few respondents discussed the reporting unit level at which the impairment test is performed and its contribution to costs. Those respondents explained that allocating balance sheet accounts to reporting units is arbitrary and complex. A preparer explained that allocating items to reporting units is a task that is executed only for the impairment test.
78. Seven respondents discussed costs related to recent amendments made to the subsequent accounting for goodwill, generally noting that costs persist even after Step 0 and eliminating Step 2. A more complete discussion of Step 0 and eliminating Step 2 can be found in the section discussing recent amendments to the subsequent accounting for goodwill
79. Respondents also offered other general comments related to costs. One preparer noted that it has incurred significant effort and cost in this area, despite never having taken an impairment charge. Another preparer also stated that it has never taken an impairment charge, but the scope of its impairment testing continues to expand as the entity's goodwill balance continues to increase. That same preparer commented that investors do not benefit from the emphasis placed on this process.

Another stated that it questions the burden placed on preparers to evaluate long tenured goodwill for impairment when that information is minimally used by other stakeholders.

80. In discussing those costs, two preparers noted that impairment testing and its related processes require considerable time and cost that could be spent on more strategic or earnings-generating areas of the business.

Lack of Informational Utility Provided by Impairment Model

81. Many respondents who opposed an impairment model discussed the lack of informational utility provided by the impairment test. A few respondents noted that the information provided by the impairment test is limited. A preparer stated that this is because of its one-directional nature. An auditor noted that it does not enable users to assess performance.
82. A few respondents, including preparers noted that the subjectivity of the impairment test results in lower quality information. Those respondents noted that the results of the impairment test may be anomalous because the model is inconsistently applied and two individuals could get different answers with the same fact pattern. A preparer noted that this inconsistent application reduces comparability. Another preparer noted that the results of the impairment test could be misleading if a single reporting unit is impaired without considering an increase in the fair value of another reporting unit that was acquired as part of the same acquisition. That respondent also noted that there is additional subjectivity in considering control premiums, assessing market multiples, and when market dislocations exist.
83. A few respondents discussed concerns about the impairment test related to the test being a point-in-time valuation. One respondent noted that entities' fair value calculations may be affected by stock price decreases or other macroeconomic factors outside an entity's control that may have little to do with the acquisition. One preparer further explained that assumptions regarding terminal value multiples and discount rates can have a significant effect on these calculations and these assumptions could later swing in the other direction, suggesting that the fair value has increased. An individual stated that because this is a point-in-time test, an impairment can sometimes reconcile to an irrational amount. Those respondents noted that the current model could result in impairment when only a temporary decline in fair value exists.
84. Some respondents noted that the impairment test may not convey information as intended, thereby reducing the informational utility of the test. A consultant, a preparer, and a professional association stated that the model is unable to properly assess the value of goodwill. Pursuant to this view, one preparer noted that impairment does not provide insight into the nature of changes to the expected benefit represented by goodwill. Similarly, a valuation professional explained that the current model is driven by the value of reporting units, such that an impairment charge can be unrelated to the original goodwill asset and, instead, be related to something else within the reporting unit. Similarly,

an individual stated that an operation could consistently lose money but could be unimpaired for other reasons. Other respondents refuted the idea that impairment holds management accountable and stated that this notion is invalid. They noted that impairment may simply reflect the end of the asset or operational life.

85. Four respondents noted that impairment testing is useful for a limited period of time because the test becomes more challenging to perform and significantly less precise over time. One preparer noted that other areas of GAAP acknowledge that long-term projections may be unreliable, but goodwill impairment testing continues to require them. Respondents noted that value is difficult to measure over time. An auditor and a preparer noted that impairment and related disclosures are most useful within the first few years, after which time the informational value of an impairment charge diminishes.
86. Accordingly, eleven respondents discussed the integration of acquisitions and the resulting shielding effect as reasons for this limited time horizon on the informational utility of impairment. Those respondents noted that impairment may not accurately measure the success or failure of an acquisition because the goodwill impairment test includes goodwill from previous business combinations and internally developed goodwill. Two auditors explained that the value of goodwill in an acquisition is indistinguishable from the value of the integrated business. This causes goodwill to lose its separate character, making it challenging to separately identify acquisition-specific goodwill impairment after a business has been integrated. Other stakeholders discussed how the goodwill impairment test includes the values of other items within the reporting unit, thereby creating a shielding effect and limiting the recognition of impairments. A consultant stated that the comingling of acquired goodwill with internally generated goodwill also is inconsistent with the notion that internally generated intangible assets are not capitalized. An auditor explained that because of those phenomena, stakeholders are unable to discern the extent to which an impairment arose because of loss of value, failure of the acquirer to replace goodwill, or other external economic factors. A preparer noted that these inconsistencies in the model contribute to its lack of usefulness given that while most other assets are derecognized as they are consumed, goodwill can be derecognized only through the impairment of the entire reporting unit, resulting in goodwill balances that persist on the balance sheet well after its value has been consumed. A standard setter noted, however, that it is difficult to improve the current impairment-only model to address the shielding effect.
87. Many respondents, in discussing their opposition to an impairment model, noted that impairment is a lagging indicator. Those respondents generally stated that impairment does not provide timely, predictive information. Two respondents expressed concern that impairment is “too little too late” and commented that this is increasingly concerning given the accumulation of goodwill balances

globally. One auditor stated that the lagging nature of impairment indicates that the model may not be providing users with meaningful information.

88. Similarly, 10 respondents noted that impairment information is confirmatory and that the information communicated by an impairment charge is available elsewhere. Those respondents commented that underperformance is likely known before an impairment because other sources indicate difficulties well in advance of when an entity records an impairment charge. One preparer explained that impairment is not typically the result of a sudden action or event but, instead, is the result of trends that develop over a significant time period. A trade group representing analysts noted that analysts are usually fully aware of the failure or underperformance years before an impairment. Respondents mentioned several sources that indicate a decline in goodwill value before an impairment charge, including earnings releases, analyst calls, MD&A, and other disclosures.
89. An academic respondent mentioned academic research that found that the amount of new information provided to equity investors by goodwill impairments declined following FASB Statement No. 141, *Business Combinations*, and Statement 142.³ They noted that this research could suggest that impairments are becoming less timely under the impairment-only model, as demonstrated by other academic research.⁴
90. Other stakeholders noted that the information provided by impairment is not useful because investors adjust for these charges in their analyses. This was noted by many respondents who stated that users disregard goodwill impairment expense as a non-cash charge and, instead, evaluate entities using other methods. Several of those respondents noted that users are more focused on other disclosures and non-GAAP measures, such as adjusted EBITDA. Accordingly, one preparer explained that impairment charges receive little to no attention during earnings calls and that analysts are focused on operational financial results and performance metrics rather than the amount of basis for impairment. A few respondents noted that impairment information also is generally ignored in making credit decisions because those decisions are based on assets that generate cash flows or can be readily liquidated. Four respondents from the banking industry explained that banking institutions are analyzed and regulated on the basis of regulatory capital or tangible common equity per share, measures which exclude goodwill. Thus, those respondents noted that goodwill impairment testing is a particularly arduous process with little value for this industry.

³ Bens, D. A., W. Heltzer, and B. Segal. 2011. The information content of goodwill impairments and SFAS 142. *Journal of Accounting, Auditing & Finance* 26 (3): 527–555.

⁴ Li, K. K., and R. G. Sloan. 2017. Has goodwill accounting gone bad? *Review of Accounting Studies* 22 (2): 964–1003.

91. Two respondents who overall opposed an impairment-only model acknowledged that user feedback is mixed on the usefulness of the information generated.

Other Considerations

92. Four respondents, including two auditors and two preparers, stated that an impairment-only model is inappropriate because goodwill is a wasting asset. One preparer noted that the largest portion of goodwill on its balance sheet is from an acquisition made in 2005. That preparer explained that it likely received the benefits from the acquisition within the first 3–5 years following the acquisition but that the goodwill balance persists 14 years later. Another preparer reflected on its goodwill balance of \$40 billion, stating that the underlying items included in that goodwill balance are either no longer present or have significantly declined in value.
93. An academic respondent provided a summary of several academic studies explaining other effects of an impairment model and implications on audit effectiveness. One study found that there is a positive association between material goodwill impairments and subsequent auditor dismissal and hypothesized that the current impairment-only model creates friction between auditors and managers.⁵ Another study noted that goodwill impairments become less likely as clients' non-audit fees increase and that this effect is more pronounced for clients who have stronger incentives to exert influence over their auditors.⁶
94. Academic research discussed by one academic respondent also suggests that an impairment-only model may create management incentives that have implications for purchase price allocations. The academic respondent noted that evidence overall suggests that under an impairment model, entities are more likely to respond to incentives to overstate the goodwill balance without recognizing impairments on a timely basis, which has led to users being provided with less useful financial information. This respondent, however, noted concerns that goodwill may be biased regardless of the reporting model. The respondent cited several studies that documented increases in purchase price allocations to goodwill following the issuance of Statements 141 and 142, presumably to avoid the amortization required for separately recognized, indefinite-lived intangible assets.⁷ Another study suggests that acquirers allocate more to goodwill under an impairment-only

⁵ Ayers, D. R., T. L. Neal, L. C. Reid, and J. E. Shipman. 2019. Auditing goodwill in the post- amortization era: Challenges for auditors. *Contemporary Accounting Research* 36 (1): 82–107.

⁶ Carcello, J. V., T. L. Neal, L. C. Reid, and J. E. Shipman. 2019. Auditor independence and fair value accounting: An examination of non-audit fees and goodwill impairments. *Contemporary Accounting Research*, forthcoming.

⁷ Zhang, I. X., and Y. Zhang. 2017. Accounting discretion and purchase price allocation after acquisitions. *Journal of Accounting, Auditing & Finance* 32 (2): 241–270.

Shalev, R., I. X. Zhang, and Y. Zhang. 2013. CEO compensation and fair value accounting: Evidence from purchase price allocation. *Journal of Accounting Research* 51 (4): 819–854.

model than under an amortization model but acknowledges that relative values may also be distorted under an amortization model.⁸ Other academic literature documents delayed impairments in response to managers' own compensation and reputation concerns, among other incentives.⁹

Amortization Model

95. Ninety-five respondents provided comments about an amortization model. Of those respondents, more than half supported amortization. Six respondents were neutral on the topic, while 33 disagreed with an amortization model. Comments regarding this topic were often contingent on other factors, including potential decisions about the amortization method or changes to the impairment test.

Support for an Amortization Model

96. Fifty-six respondents expressed support for amortization. Those respondents stated that goodwill has a finite life, discussed the cost relief and other benefits that amortization would provide, and noted that amortization would reduce impairments.

Finite Life

97. Thirteen respondents, consisting largely of preparers, stated that goodwill has a finite life, such that amortization would more closely reflect the economics of business combinations and the declining value of goodwill over time. Those stakeholders noted that this decline is inevitable because the acquired business is integrated into the existing business and synergies are realized. Two preparers mentioned specific factors that contribute to the diminishing value of goodwill over time, including changing business strategies prompted by management turnover; changes in customer brand loyalties or preferences related to market innovations, identifying substitutes, market competition, advancements in technology, and other changes in market conditions. One noted over time that the balance of goodwill will fail to reflect the future economic benefits that were initially recorded. A standard setter stated that goodwill should be recognized as a cost over time to correspond with the realization of excess earnings expected following a business combination. Accordingly, six respondents, including five, stated that amortization would appropriately match

⁸ Koonce, L., S. Toynbee, and B. White. 2019. The justifiability of financial reporting preferences in accounting for intangibles in business combinations. Working paper, The University of Texas at Austin.

⁹ Ramanna, K., and R. L. Watts. 2012. Evidence on the use of unverifiable estimates in required goodwill impairment. *Review of Accounting Studies* 17 (4): 749–780.

Beatty, A. and J. Weber. 2006. Accounting discretion in fair value estimates: An examination of SFAS 142 goodwill impairments. *Journal of Accounting Research* 44 (2): 257–288.

costs to the period of expected benefit. One trade group stated that amortization would hold management accountable given that entities would be required to recognize a portion of the purchase consideration in earnings over time.

98. An academic respondent discussed academic research regarding the life of goodwill. That stakeholder cited research suggesting that while the gross amount of goodwill is significantly associated with a firm's market value, this is only in the year of acquisition and the two years following.¹⁰ Additionally, the academic respondent noted that purchased goodwill from acquisitions is significantly associated with future operating income for up to five years. Another study cited by the respondent noted that while purchased goodwill contributes to a firm's ability to generate a unique stream of economic earnings, this relationship is less persistent than the relationship between intangible assets and economic earnings.¹¹
99. Providing further support for goodwill as a finite-lived intangible asset, seven respondents discussed the replacement of acquisition-related goodwill with internally generated goodwill. Those respondents noted that goodwill is consistently consumed and replaced by internally generated goodwill such that the combined entities are eventually supported by operations not related to the initial business combination. A few respondents noted that goodwill is sustained only because of the internally generated goodwill through further investment by the acquirer or the goodwill being protected through combination with other assets or acquisitions. One consultant cited a whitepaper that explains that those ongoing costs to maintain goodwill are included in the financial models used to price deals and stated that these models and their structure should not dictate the nature of an asset and its accounting treatment.
100. That same consultant, along with a user, further discussed valuation models in their support of amortization. Both of those stakeholders noted that valuation models are not valid reasons to treat goodwill as an indefinite-lived asset. The consultant stated that the perpetual growth rate used in models does not and cannot exist in practice because that successful businesses fail, are acquired, absorbed, or often re-engineer themselves. The user explained that the fair value of businesses is determined or supported using a discounted cash flow model, including a terminal value that represents the present value expected to be generated from cash flows into perpetuity. That user noted, however, that the discount factors applied generally result in de minimis present values for future cash flows after 10–20 years, such that the acquired business has a finite economic life.

¹⁰ Bugeja, M., and N. Gallery. 2006. Is older goodwill value relevant? *Accounting & Finance* 46 (4): 519–535.

¹¹ Brown, N. C., and M. D. Kimbrough. 2011. Intangible investment and the importance of firm-specific factors in the determination of earnings. *Review of Accounting Studies* 16 (3): 539–573.

Cost Considerations

101. Approximately a fifth of all respondents cited cost considerations as a reason for supporting amortization. Twelve respondents, mostly preparers, specifically noted that an amortization model would relieve some of the costs currently borne by the system in an impairment-only model. To the extent that respondents discussed the costs associated with the impairment-only model, those ideas are discussed in the section regarding the impairment-only model.
102. Preparers generally noted that amortizing goodwill would reduce the burden of cost, time, and effort currently spent. Two of them stated that the costs to implement an amortization model would not be significant. One noted that the controls and processes that currently exist could be leveraged in an amortization model with impairment testing. One CPA society commented that while the current model is costly, making narrow modifications to address these cost considerations would strip the impairment-only model of its value. Therefore, that CPA society stated that an amortization model with triggering event-based impairment testing would be better than an impairment-only model from a cost-benefit perspective. A couple of respondents discussed audit costs, including a CPA Society that noted that audit risk is lower in an amortization model.
103. Some respondents overall supported an amortization model but also stated that there may be costs associated with determining an amortization period. Those respondents stated that the attributes and complexity of the amortization model may affect whether cost savings are realized.
104. Three respondents, including a preparer, two individuals, and a professional association supported an amortization model because of its simplicity. They noted that an amortization model would reduce subjectivity and would be more understandable. One individual stated that despite its simplicity, an amortization model may be no less accurate than impairment. A professional association observed that the Private Company Council (PCC) alternative was motivated by the objective of reducing cost and complexity and noted that those same issues currently exist for public business entities.
105. In assessing expected costs and expected benefits, two respondents—an auditor and a professional association—noted that private companies have found the cost-benefit balance of the PCC alternative to exceed that of the current impairment-only model and stated that the alternative has not reduced the quality of financial information. However, one auditor warned that the existence of the PCC alternative should not in itself be a justification for moving to an amortization model for public business entities.

Information-Utility

106. Respondents also commented on the perceived benefits of the amortization model, noting that an amortization model would provide users with information. Three preparers stated that an

amortization model would improve comparability between entities, both within the same sector and between sectors. One of those preparers agreed with PCC members who previously noted that amortization levels the playing field among entities that grow through acquisitions and those that grow organically.

107. A few respondents stated that moving to an amortization model would not reduce the benefits of the subsequent accounting for goodwill. One auditor stated that the usefulness of presentation and disclosure would be maintained, while an academic respondent cited the lack of timeliness of the current impairment model as a reason that benefit would not be reduced under an amortization model.
108. Several respondents noted that an amortization model would provide better information than that provided by impairment testing. Two preparers commented on non-GAAP metrics. One stated that amortization would be more meaningful than impairment because it is a recurring expense, unlike impairment which often is removed from analyses because of its infrequent and unpredictable nature. A preparer from the banking industry explained that bank regulatory capital guidance already disregards goodwill in calculating ratios, noting that amortization therefore aligns more closely with this existing guidance.
109. Five respondents stated that amortization would provide users with more useful information by allocating cost to the period of benefit. Those respondents included three preparers, an auditor, and a standard setter. Other respondents also made comments related to providing meaningful information. An auditor indicated that users are typically familiar with assets that are systematically depreciated or amortized. A preparer noted that it becomes less important for users to assess the performance of an acquiree separately from the business into which it is integrated as time passes after an acquisition. Another preparer stated that amortization could facilitate more timely recognition of the costs of acquisition.
110. Related to decision-useful information, one trade group noted that in jurisdictions in which goodwill is amortized, including France and Japan, they are unaware of any major frustrations from users regarding the practice of amortization. An academic respondent, although it supported amortization, also noted that academic research suggests that amortization charges are not decision useful. That respondent summarized studies that suggest that systematic amortization reflects arbitrary allocations irrelevant for investors' decisions. The stakeholder also discussed a sample of entities in the 1990s that demonstrates that there is no difference in the value relevance of earnings after

adjusting for amortization, suggesting that investors pay little or no attention to amortization charges.¹²

111. Many respondents who supported an amortization model explained the downfalls of the current impairment-only model. Those comments are generally reflected in the section discussing the impairment-only model.

Fewer Impairments

112. Some respondents, consisting largely of preparers observed that an amortization model would lead to fewer impairments in subsequent periods in an amortization model that includes impairment. Two of those preparers noted that this would reduce volatility and increase comparability. Other preparers stated that the reduced risk of impairment would alleviate stress on the impairment test in later years and improve the cost-benefit relationship for preparers because the impairment test would become less difficult to perform as the goodwill balance is amortized. Two preparers noted that reducing the likelihood of impairments could make impairments more meaningful and decision useful because they would represent a stronger indicator of underperformance. One trade group stated, however, that underperformance is most evident in the first few years following an acquisition, during which time impairment information tends to be most useful. That respondent noted that even with goodwill amortization, impairment charges might be necessary during the first few years when an acquisition underperforms.

Variations of an Amortization Model

113. More than a third of respondents commented on variations of amortization, including an amortization-only model and amortization paired with impairment in general. Two respondents, an auditor and a preparer, opposed an amortization-only model while two other respondents supported an amortization-only model. Those respondents who supported an amortization-only model noted that impairment charges are ignored and distract from other indicators of performance and that testing for impairment is costly. Four respondents provided general comments on impairment within an amortization model, noting that impairment is helpful when paired with amortization because the impairment test is necessary to ensure recoverability if an investment's value declines significantly. A preparer stated that using both approaches will reduce compliance costs while still providing useful information because impairment is still likely after the first year of amortization. That

¹² Jennings, R., M. LeClere, and R. B. Thompson. 2001. Goodwill amortization and the usefulness of earnings. *Financial Analysts Journal* 57 (5): 20–28.

preparer, however, noted that the acquiree is increasingly integrated with the acquirer after the first year or two, which makes information related to impairment analyses less useful after that time.

Opposition to an Amortization Model

114. Approximately a third of total respondents opposed an amortization model. Respondents' views varied such that some supported modifying the impairment test instead of moving to an amortization model, while others opposed all amortization. One standard setter noted that, while differing perspectives may explain why the issue of goodwill is a recurring challenge, they do not justify a periodic shift in standards that unwarrantedly disrupts the accounting environment. Generally, those who opposed amortization mentioned that it does not provide decision-useful information, noted cost considerations, stated unintended consequences of an amortization model, and noted conceptual reasons for their opposition.

Lack of Information Utility

115. Of the respondents who disagreed with amortization, roughly two-thirds expressed concern about the lack of information that an amortization model would provide for users. Two respondents commented that amortization would favor other stakeholder groups, such as preparers and auditors, over users. One noted that amortization would be favored by auditors because less testing would be required, which would reduce the level of risk during PCAOB inspections, which have consistently noted deficiencies in auditor examinations of goodwill over the past 15 years. Two other respondents stated that amortization would be detrimental to the objective of financial reporting and would not provide relevant information. Many respondents stated that decision-useful information would be lost if amortization were adopted and noted that amortization is arbitrary, has very little informational utility, may impair investors' decision making, and does not produce accurate accounting results. A valuation professional explained that while there may be differences in the way and extent to which users utilize impairment information, there continue to be users who value the information, and, therefore, a change to amortization would not serve all users equally well.
116. More specifically, many respondents noted that amortization would reduce the acquisition performance information available for users. Four respondents stated that with an amortization model, the likelihood of impairment would be reduced. Those stakeholders noted that this would potentially mislead investors and reduce any benefit that may be communicated by impairment. Additionally, several respondents expressed concern that amortization would make it challenging for users to assess management's performance and the degree to which entities are successful in deploying investor capital. One preparer noted that amortization would reduce visibility into underperforming aspects of an entity's business. A professional association noted that amortizing

goodwill would distort profitability ratios as the passage of time decreases equity and assets, thus affecting the return on assets and return on equity of a business.

117. Ten respondents noted that amortization would prompt both preparers and users to make additional non-GAAP adjustments. Those respondents stated that amortization would not be viewed as meaningful to assessing operating performance and would be adjusted out of earnings as a result. One user noted that beyond amortization being a “non-cash charge,” there would be no real meaning for users. A valuation professional questioned why the Board would propose amortization when a likely outcome would be a dilution of the relevance of GAAP.
118. Two preparers expressed concerns related to comparability. One stakeholder noted that amortization would create comparability issues between entities that have grown organically and those that have grown through mergers and acquisitions.

Cost Considerations

119. Ten respondents, primarily preparers and valuation professionals, questioned whether an amortization model would be less costly than the current impairment-only model. Those respondents noted that amortization may not alleviate the costs associated with impairment analyses. Others observed that amortization likely would still require impairment testing, making it unclear what the cost savings would be. Some noted that amortization with impairment testing could preserve much of the cost of the existing impairment model, especially if a long amortization period is selected. Other respondents explained the potential costs of an amortization model, noting a need for processes to reassess the appropriateness of the amortization period on an ongoing basis, systems and controls, development of new training and curriculum, and ongoing audit costs related to reviewing management’s assumptions related to amortization.

Unintended Consequences

120. Six respondents mentioned several unintended consequences that an amortization model could have. Three of those respondents noted that amortization would have a material negative effect on earnings with an economic justification, which could discourage acquisition activities. Preparers noted that this could be especially true for entities in rate-regulated industries that often have significant goodwill and could cause regulatory complexity because regulators would exclude goodwill from the rate-setting process. One preparer also noted that the effect of amortization expense would need to be considered in mergers and acquisition pricing models, which could affect an entity’s ability to consummate deals. That preparer further explained that amortization expense would affect future earnings-per-share expectations and equity forecasts that would affect an acquiree’s value, thereby disrupting the market until any new standard is understood and accommodated for.

121. Three respondents also expressed concern about debt covenants and the potential for them to be negatively affected by goodwill amortization. One preparer noted that covenants likely would need to be renegotiated and processes for monitoring compliance would need to be improved.
122. Other unintended consequences respondents mentioned include effects on financial statement metrics, such as return on assets and other period-over-period comparability measures, a lack of transparency surrounding an entity's effective tax rate, changes to reportable segments if the chief operating decision maker reviews asset information, and uncertainty arising from the interpretations and responses of other stakeholders, including regulators, rating agencies, lending institutions, and analysts. One preparer noted several consequences related to the calculation of total assets and explained that this calculation could affect the reporting requirements of Regulation S-X when metrics are used to determine significant subsidiaries and significant business combinations. That preparer stated that amortizing goodwill would lead to changes in total assets that also could affect captioning for interim balance sheets and materiality assessments if entities consider total assets. A valuation professional also noted that smaller public companies whose primary asset is goodwill could risk delisting as a result of amortization.

Other Considerations

123. Many respondents, including several valuation professionals, expressed that goodwill is not a wasting asset. One valuation professional explained that goodwill is closely associated with rising business entity values, as evidenced by long-term increases in the U.S. gross domestic product and the value of the securities market. One valuation professional stated that goodwill may be increasing in value, while a user stated that its value fluctuates, noting that amortization would create confusion when the intrinsic value of goodwill is increasing. A valuation professional noted that the components of goodwill are predominantly nonwasting, and that those components are essential to maintaining the perpetual nature of the business. Many respondents in the valuation industry cited a recent International Valuation Standards Council paper, which explains that goodwill is not a wasting asset and supports the indefinite life selected for goodwill. A preparer in the utility industry noted that assets in this industry are effectively operated into perpetuity, with goodwill typically increasing over time in step with rate base growth, making amortization especially ineffective.
124. Respondents noted that the assumptions present in deals and valuations make amortization's wasting assumption inappropriate. Valuation professionals noted that terminal value calculations assume ongoing value with cash flows projected indefinitely, that projections assume growth in value and cash flows over time, and that amortization would be inconsistent with the going concern premise inherent in acquisitions. Two valuation professionals noted that investors similarly expect ongoing cash flows and that amortization would be inconsistent with how market participants view

their investments. Those respondents stated that businesses are acquired with the intent to grow and enhance value, making the assertion that goodwill declines in value debatable. Two other valuation professionals noted that by inaccurately reflecting the indefinite nature of goodwill, amortization would disconnect the accounting from the reality of the transaction.

125. Respondents noted other conceptual problems with amortization and remarked that it is not justified. An academic respondent and a CPA society commented that imposing amortization would introduce an expense with no relation to the economic benefits provided by goodwill and would reflect the financial condition of the firm. Five respondents explained that amortization is oversimplified and may be misleading. Several of those respondents noted that amortization could result in premature expense recognition, overstating the expense in the first few years, and undervaluing goodwill. One preparer stated that sustained goodwill balances represent balance sheet strength and enhanced capital such that amortization would artificially erode assets and understate capital. That preparer explained that this would be particularly misleading in industries in which capital is a primary focus for financial statement users. One valuation professional explained that unlike an impairment model in which increases in value from successful transition are achieved through higher earnings, earnings are unnecessarily penalized in an amortization model with no justification for doing so.

Other Comments on an Amortization Model

126. In addition to discussing the amortization model itself, some respondents provided other related comments, including where amortization charges should be reflected in the financial statements and views on the appropriate transition method if amortization were to be implemented.

Financial Statement Presentation of Amortization Charges

127. A few respondents on the presentation of amortization charges. Two noted that amortization should be shown on the income statement. An academic respondent cited research demonstrating that investors may not effectively understand disclosures of other comprehensive income and also noted that goodwill is the result of a management decision affecting operations of the business.¹³ A preparer stated that amortization on the income statement could discourage mergers and acquisition activity and that, instead, goodwill should be amortized through additional paid in capital as a result.

¹³ Maines, L. A., and McDaniel, L. S. (2000). Effects of comprehensive-income characteristics on nonprofessional investors' judgments: The role of financial-statement presentation format. *The accounting review*, 75(2), 179–207.

128. One auditor mentioned the difference between the accounting treatment of amortization and the accounting treatment of impairment on the income statement and stated that the Board should consider whether additional guidance would be necessary if goodwill were to be amortized. For example, at present, amortization of intangible assets and goodwill may be included in operating expenses or other line items on the income statement, while impairments of long-lived assets may be included in selling, general, and administrative expenses, cost of sales, or presented separately.

Transition

129. Eight preparers commented on transition in the event that the Board adopts an amortization method. Some favored a modified retrospective application because it would allow entities to record the transition adjustment through retained earnings. Those respondents noted that this would provide the best comparability between entities and acquisitions because an entity would have already received some of the benefits of its previously acquired goodwill. One preparer suggested a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period with an offset against retained earnings. On the contrary, two preparers favored a prospective transition approach because it would simplify the implementation process. Of the eight preparers, one favored optionality in transition method.

Amortization Period

130. An important consideration of the amortization model is the appropriate amortization period to be applied. Eighty-two respondents provided comments on amortization period. The ITC specifically listed seven methods for determining an amortization period. Those were discussed to varying degrees by respondents. Some respondents commented on each or some of the alternatives, while others discussed options for an amortization period that combined elements of the various alternatives presented in the ITC.
131. Some respondents, including four valuation professionals, opposed any amortization period, consistent with those respondents' views that an amortization model is inappropriate. Accordingly, those respondents noted that any assigned amortization would be arbitrary, would not provide meaningful information in comparison with impairment, or would ignore the indefinite nature of goodwill. For four of those respondents, disagreement with any amortization period was their only comment on this topic. One preparer expressed the opposite view, stating that any period would be reasonable and recognize the inevitable declining value of goodwill.

Default Period

132. Approximately a quarter of all respondents discussed the merits of a default period. Nearly all of those respondents noted that a default period is preferable for cost-benefit reasons because a

default period would provide simplicity, reduce costs, and increase comparability. Those same respondents noted that a period other than a default would create unnecessary complexities, be more difficult for unsophisticated users to understand, be subject to higher audit scrutiny, and decrease consistency and comparability across companies.

133. A preparer, reflecting a similar sentiment, stated that while the best conceptual approach would reflect management's view, this would introduce more cost than benefit, thereby making a prescribed amortization period the preferable approach to ease administrative, auditing, and comparability costs. One professional association observed that the PCC alternative, a model with a default period, has resulted in cost savings and simplification for private companies. Among all the alternatives, respondents consistently noted that a default period is the least costly. One auditor explained, however, that cost reduction would be achieved only if the amortization period was short enough to reduce the cost of the impairment test. Another auditor noted that a default period would lead to cost savings given that a default amortization period would not need to be revisited in subsequent periods.
134. Some respondents, including six preparers, cited greater comparability as a benefit of a default period and noted that a default would allow for users to more reasonably and easily compare entities across all sectors.
135. A few respondents expressed that a default period may prevent abuse, including two valuation professionals that noted concerns about moral hazard behavior and the opportunity to mislead investors if a period other than a default is adopted.
136. Approximately a fifth of respondents opposed a default period for amortization. Nine respondents noted that a default period would not provide users with meaningful information because of the arbitrary nature of a default period. One valuation professional noted concerns that a default period might discourage entities from disclosing the nature of any goodwill.
137. Some respondents, including several preparers noted concerns about a default period and cited conceptual reasons. Those stakeholders noted that a default period is more rules based, would not be representationally faithful of the economic transaction, and would not appropriately reflect some elements of goodwill that are more long term or short term in nature. One consultant stated that there is no conceptual basis for a default period.
138. The lack of applicability of a default period to all entities was cited by several respondents in explaining their reasons against a default period. Many respondents stated that a default period would be economically misleading and inappropriately rigid because every business and transaction is unique. One preparer also noted that a short default period would be inappropriate for rate-regulated assets with useful lives of more than 40 years.

139. Of those who disagreed with a default, a few cited contingent support for a default. Nearly all of those respondents stated that a default would only be acceptable if it were adopted for cost reduction reasons as a practical expedient and the Board acknowledged that it was not representationally faithful of the economics.

Variations of a Default Period

Default with a Cap

140. Some respondents discussed a default amortization period with a cap, such that preparers could justify a period shorter than the default if warranted by the facts and circumstances on an acquisition-by-acquisition basis. An academic respondent noted that a cap is appropriate given the typically short lifespan of goodwill benefits and provided academic research discussing the election of shorter amortization periods. That respondent cited a study of purchase method acquisitions in the 1990s that demonstrates that firms are more likely to select a period of less than the maximum when they expect to derive substantial synergies.¹⁴ That study shows that, historically, when an entity elected a shorter period, it experienced stronger growth in abnormal earnings while firms that selected maximum periods experienced significant declines in earnings and stock returns. The academic respondent explained that those results are interpreted as management's strategic use of long periods to mask expected performance of less successful acquisitions.
141. Many of the respondents that discussed a default period with a cap did so within the context of the PCC alternative, noting that a single requirement for the subsequent accounting for goodwill would improve comparability. An auditor noted that while it would be appropriate to allow entities to justify a shorter period in limited scenarios, it would expect that an election of a shorter period would be rare because of the costs incurred to justify a shorter period, increased audit and implementation complexities, and based on experience with the PCC alternative and the prior requirement to amortize.

Default with a Cap and/or Floor

142. One preparer supported an exception to the default period in limited situations with a cap and/or a floor. That preparer, however, noted that deviating from a default introduces estimates, increases costs, and reduces comparability. Accordingly, that preparer stated that any deviation from a default should be an exception.

¹⁴ Henning, S. L., and W. H. Shaw. 2003. Is the selection of the amortization period for goodwill a strategic choice? Review of Quantitative Finance and Accounting 20 (4): 315–333.

Default with a Range

143. While no respondents discussed a default period solely in combination with a floor, two preparers and a CPA society supported a default period in combination with a discrete range if preparers were to justify a period other than the default. Those respondents noted that a range would be appropriate to limit the level of noncomparability and limit the level of judgment and justification necessary, but that some level of justification would provide users with greater insight. One preparer suggested that ranges could be provided based on industry. A CPA society recommended that guidance be provided to assist in evaluating and justifying a period other than the default. Another preparer stated a preference for a range of 10 to 20 years, noting that amortization over a period outside that range would inappropriately increase or decrease exposure to impairment. More specifically, that preparer explained that a period of more than 20 years would increase potential for impairment, which has limited usefulness for evaluating performance after integration, but that a period of less than 10 years would be less effective because impairment would be unlikely, thereby providing the opportunity to hide significant changes in performance and limiting information available to users.

Justification of a Deviation from a Default Period

144. Many respondents more generally discussed a default period with the ability to justify a deviation from that default period. Respondents, particularly preparers, noted that a default with the option to justify provides the reduced cost and burden, simplification, and increased comparability associated with a default period, while still allowing for flexibility in specific circumstances that merit an alternative period. An auditor noted that a default with the option to justify would resolve the issue of a particular default period being too short for some and too long for others but stated that determining an alternative period would be difficult. An academic respondent noted that while a default provides an expectation for an amortization period, deviation conveys information about the expected benefits. That respondent cited experimental accounting research that demonstrates meaningful investor reactions when firms' accounting choices deviate from norms or expectations.¹⁵ That respondent, however, also cautioned that requiring managers to justify a period other than the default does not ensure that managers will select an unbiased amortization period, citing research in psychology that indicates that if managers have directional preference, they will subjectively justify their preferred amortization period.

¹⁵ Clor-Proell, S. M. 2009. The effects of expected and actual accounting choices on judgments and decisions. *The Accounting Review* 84 (5): 1465–1493.
Koonce, L., J. Miller, and J. Winchel. 2015. The effects of norms on investor reactions to derivative use. *Contemporary Accounting Research* 32 (4): 1529–1554.

145. Regarding the option to justify a deviation from a default, 12 respondents disagreed. Those who disagreed with this alternative had comments that often aligned either with arguments made against a default in general or against management judgment in general. For example, several respondents disagreed because a default period is arbitrary or disagreed because of the significant management judgment involved in justifying an amortization period. However, two noted challenges with deviating from a default. One consultant explained that there would be complexity in determining how much variation between the amortization period and default period would warrant a deviation from the default period, while an auditor explained that if an entity were required to justify a deviation from the default period, the required analysis would introduce unnecessary costs. Accordingly, that respondent stated that any costs and benefits would depend on the default period selected and the framework for determining when a period other than default is appropriate.
146. In the ITC, the staff asked users whether they would receive decision-useful information if an entity justifies an amortization period other than a default. Respondents' views on this question often aligned with other views stakeholders expressed when discussing an option to deviate from a default. Twenty-seven respondents answered this question; a majority of those respondents stated that a justification of a period other than default would provide decision-useful information. Those respondents generally noted that a justification would signal the period over which management expects benefit from the acquisition and their intentions for an acquisition. Two respondents stated, however, that entities may be reluctant to disclose this information because it may be sensitive. One valuation professional specified that information would be beneficial only if objectively determined but noted that significant judgment and bias may be involved, thereby reducing its meaningfulness. In considering the question, nine respondents noted that a justification of other-than-default period would not provide decision-useful information. One preparer stated that it could be useful but that users adjust for goodwill in their metrics and analyses regardless, reducing its usefulness. Two respondents noted concerns about misleading information and enabling management to manipulate its amortization expense. Others expressed views that this alternative would not provide decision-useful information because it was not aligned with their view of goodwill.

Specific Amortization Periods

147. Although respondents expressed interest in varying methods of implementing a default period, respondents' views regarding the specific default period were substantially aligned such that a majority of respondents suggested a period of either 10 or 15 years. Two respondents expressed a preference for a short period of three to five years. Nine respondents, including several preparers noted that a period of 10 years would be appropriate. Many of those respondents discussed the PCC alternative, noting that the amortization period should align with the PCC alternative to foster greater comparability. A few preparers also stated general agreement with the PCC's reasoning in selecting 10 years, noting the PCC's conclusions that a significant portion of the assets and

liabilities acquired would be used up or satisfied by Year 10 and that a longer amortization period would increase the risk of impairment. One preparer noted that 10 years is conceptually preferable, given the short useful lives of many of the acquired assets and liabilities in a business combination. An auditor stated that 10 years may be shorter than the conceptual life but would reduce the need for entities to justify the use of a shorter period.

148. Some respondents commented that 15 years was a preferable default period. All of those respondents noted that a period of 15 years would align amortization with the current amortization period stated in tax law, noting that aligning the two periods would decrease deferred tax amounts and simplify the tax provision, thereby benefitting users and preparers.
149. Several respondents that either 10 or 15 years would be preferable to align with either the PCC alternative or tax law, while other respondents suggested a range of values. Two preparers stated that a period between 10 and 15 years would be appropriate. One commented that this would be reasonable for the oil and gas industry because the typical proved reserves life is 10–15 years. A valuation professional and a user suggested a period between 10 and 20 years.
150. Some respondents commented that a longer period would be preferable. Two respondents noted that a period longer than 15 years would be appropriate. An individual in the valuation industry stated that 20 years is consistent with the valuation of a business and explained that the risk-free rate used in most valuations is based on the yield to maturity for a 20-year constant maturity T-bond. Others suggested a period in the range of 20–40 years, the previously used 40-year period, or a long-term period up to 50 years to approximate the current practice of nonamortization.
151. Some provided more general comments, noting the strengths and weaknesses of a short-term period or long-term period. An academic respondent noted that shorter periods better reflect the short-lived benefits of purchased goodwill and that goodwill information is more relevant for investors when the period is sufficiently matched with the short economic life of goodwill. That respondent cited a study of Finnish firms that found that information is more relevant for investors when firms applied an amortization period of less than five years.¹⁶ The respondent advocated for a shorter life, noting that academic evidence suggests that the expected benefit of goodwill decays rapidly and that investors view goodwill as a wasting asset. Also discussing a relatively shorter amortization period, a preparer noted that a shorter period would make impairment less relevant or necessary, while a valuation professional cautioned that a short period may be viewed as an admission by management that the acquired entity may not provide long-term benefit. A

¹⁶ Ojala, H. 2007. The value relevance of accounting goodwill – Does the abandonment of systematic amortisation make sense to investors? *Finnish Journal of Business Economics* 1: 9–34.

professional association noted that if the period is fairly short, it would justify moving from an annual impairment test to a trigger-based test.

152. Others discussed a longer amortization period. Several respondents noted that a longer period would make impairment more relevant and explained that a long amortization period may not reduce the time and effort to perform an impairment test. Accordingly, an auditor explained that a long amortization period would not result in accounting for goodwill that is significantly different from the current impairment-only model, especially in the first few years. Another auditor stated that some stakeholders believe that a long period better reflects the economics. A consultant explained that amortizing over a prolonged period without considering subsequently generated goodwill would not be supportable because of an entity's limited ability to forecast future earnings over a longer length of time.

Primary Identifiable Asset

153. Regarding an amortization period based on the useful life of the primary identifiable asset acquired, respondents overwhelmingly disagreed with this alternative. One CPA society noted that this alternative may better reflect the expected period of benefit as compared with other alternatives, while more than 20 respondents provided comments specifically against a period based on the primary identifiable asset. Many of those respondents noted that this alternative is conceptually inappropriate. Respondents frequently stated that the characteristics of the primary identifiable asset may not reflect the characteristics of goodwill. Several noted that the primary identifiable asset may have very little or nothing to do with the goodwill acquired. Because of this, several respondents stated that this alternative could be misleading, would not economically reflect the goodwill acquired, and would not provide meaningful information. One auditor noted that while the concept of a primary asset is used in existing guidance for the impairment of long-lived assets, it likely is irrelevant in estimating the period of benefit for goodwill amortization. Others noted that the resulting amortization periods would be too variable and may be too short or too long if determined based on the primary identifiable asset, thereby creating complexity without a conceptual reason for doing so. For example, an auditor noted that the types of assets acquired in a business combination and their respective useful lives can vary greatly between transactions and be much longer or shorter than the goodwill acquired.
154. Four respondents, including two auditors and two preparers, cautioned that determining the primary asset acquired may not always be straightforward. Those respondents noted that an acquisition may lack a primary identifiable asset. For example, businesses in the utility industry; businesses that have many assets that are significant to operations, which makes determining the primary asset too subjective; or businesses with very few assets, which is true of emerging businesses or service companies.

155. Although respondents generally disagreed with an amortization period based on the primary identifiable asset, two respondents noted that there may be limited instances in which this alternative could be effective. For example, a consultant stated that it may make sense if acquirers are primarily interested in a specific asset but clarified that it does not work well in instances in which there are numerous assets. That respondent noted, however, that if the acquisition was for a primary asset, the period likely would not be substantially different from management's estimate. A CPA society explained that this alternative may be reasonable if structured appropriately or linked to a floor but overall would be difficult to make operable. Despite general agreement that the alternative is not conceptually sound or operable, several respondents noted that the primary identifiable asset could be a factor that is considered by management in estimating a useful life or assessing an alternative to a default.

Weighted-Average Useful Lives of Identifiable Asset(s)

156. In response to an amortization period based on the weighted average of the useful lives of identifiable assets acquired, respondents noted slightly more support for this alternative than for a period based on the primary identifiable asset. A small group of respondents stated reasons to implement this alternative. Two noted that this alternative would be closely aligned with the accounting for asset acquisitions. Three respondents stated that this alternative has some theoretical basis and noted that an amortization period under this alternative may somewhat reflect the useful life of goodwill and how an entity consumes the goodwill. One auditor explained that if all of the acquired identifiable assets have been consumed, the collection of assets and activities giving rise to the goodwill likely no longer exist. Two respondents noted that this approach is simple and understandable. One stated that it may be the most operable approach because its objectivity is based on information that is already available. That respondent noted, however, that the Board would need to clarify certain operational issues, including whether and how indefinite-lived intangible assets and land should be included in the calculation and whether the calculation should be based only on the lives of long-lived assets or if current assets also should be included.
157. Twenty respondents noted that this alternative may be inappropriate. Respondents' comments on this alternative and an amortization period based on the useful life of the primary identifiable asset tended to be very similar. Numerous respondents noted that the weighted-average useful lives of the identifiable assets may not represent or even be related to the goodwill acquired and that this approach would be misleading and would not provide relevant information. One preparer noted, too, that this alternative assumes that the synergies are spread proportionately among the identifiable assets, which may or may not be true. Several respondents noted that this approach could result in significant differences in amortization periods. One auditor expressed concern that the arithmetic involved might skew the results to a very long or very short period, depending on the facts and circumstances.

158. In addition to those theoretical concerns, two preparers explained that an amortization period based on the weighted average of the identifiable assets may be difficult to implement, noting that it could be difficult if a business combination yields assets with a wide range of useful lives or indefinite-lived intangible assets or when an entity acquires few identifiable assets. Nonetheless, two respondents stated that this approach could be one factor used by management in estimating a useful life or an indicator that an alternative other than the default should be used.

Management's Reasonable Estimate

159. Respondents also discussed an amortization period based on management's reasonable estimate. About a fifth of respondents commented in favor of this approach. Eight respondents noted that management's estimate is preferable given the unique nature of each business combination transaction. Those respondents explained that the useful life of goodwill can vary significantly from transaction to transaction and that goodwill may represent different benefits or be driven by different factors in each transaction. Respondents advocated for an approach that would allow entities to develop an amortization period based on factors specific to their transaction, industry, and expected future economic benefits of the acquisition. One preparer noted that this approach reflects how intangible assets are accounted for in Topic 350, whereby those assets are amortized over the estimate of their useful life and the pattern reflects consumption of economic benefit. Another preparer stated that this approach to an amortization period is most appropriate because management has the best understanding of how an initial purchase price was determined and the factors that influenced its purchase price decision.
160. Several respondents noted that this approach would better reflect the pattern in which the benefits are consumed by allocating the goodwill to the period of expected benefit. Many respondents further explained that this alternative also would provide users with meaningful information by communicating the time over which an entity expects the acquisition to pay back the invested capital or the period over which benefits are expected to accrue or generate a return. One of those respondents, however, while acknowledging the usefulness of the information also expressed concern about possible strategic behaviors by management if the amortization period were to be left to management judgment.
161. Several respondents agreed with a management estimate approach and noted that this estimate would be straightforward to produce. Two consultants explained that this exercise would be similar to and no more difficult than what entities already do today for other intangible assets and other estimates. A user indicated that this approach could be consistent with the period of benefit estimated as part of the initial valuation model. Some respondents noted that because this information may already be available, they would not expect it to be costly. Many respondents discussed specific factors that could be considered to generate an amortization period.

Respondents, including an auditor, noted that management, as part of its due diligence process, will already have the necessary information to develop this estimate. For example, management likely will have estimated future cash flows and a return on investment when developing a bid price for an acquisition. Other respondents stated that entities could consider the useful life of other acquired assets, the timing of expected benefits, history of recent historical acquisitions, and other acquisition-specific factors.

Variations of Management's Reasonable Estimate

162. Three respondents discussed pairing management's reasonable estimate with a cap on the amortization period. Two respondents from Japanese organizations, including a CPA society and standard setter, noted the benefits of this alternative as implemented in Japan. The standard setter noted that this approach eliminates subjectivity in estimating but ensures a certain degree of reasonableness by leaving room for judgment. That respondent also explained that while the approach may lead to different outcomes because of judgment, those estimates provide investors with relevant information. The respondent further noted that a maximum is an appropriate and effective way to address the issue of impairments being "too little, too late." In Japan, there is a cap on the allowed amortization period, which that respondent noted is acceptable to most stakeholders. An auditor agreed that a cap could help limit a potentially wide range of useful lives based on management's judgment but warned that the cap may become an unintended default period.
163. That auditor also noted that a cap in conjunction with a floor might be more beneficial to limit the use of an extremely short useful life. One respondent, a valuation professional, also suggested management judgment be paired with a cap and/or a floor.
164. Two respondents discussed a period based on management's estimate, but with a default provided as a practical expedient. Those respondents noted that an entity may lack the means of developing an estimate or that determining a period will not be cost beneficial. A CPA society clarified that to apply this default, an entity should be required to affirm and disclose that the information available fails to establish a reasonable basis to depart from a default period.
165. Sixteen respondents, including six preparers, four valuation professionals and three auditors, provided comments against an amortization period based on management's reasonable estimate. Primarily, respondents expressed concern about the subjectivity of this alternative because it would make it challenging to apply and increase complexity, time, and costs. One CPA society stated that this estimate would require that an entity identify attributes in a business combination beyond those currently considered in Topic 805, such as the expected period that synergies will benefit the entity. Two respondents noted that this approach would require reporting based on facts and circumstances, further contributing to its subjectivity. Others noted that this alternative would

require extensive documentation and would be difficult for auditors to assess. Some noted concerns about an increase in audit and regulatory risk, as well as compliance costs. One individual stated that this alternative may result in a model similar to the system currently in place because of the high level of expected scrutiny on the amortization period and the need to adjust those estimates annually. An auditor agreed that this alternative could negate any benefit of cost reduction from moving to an amortization model.

166. Three respondents noted that the subjectivity could make this approach prone to error or manipulation. A preparer stated that the level of judgment may lend itself to management bias while an individual expressed concern about management manipulation and “big bath” deferrals if this alternative were to be implemented.
167. As a result of the subjectivity of this alternative, some noted that it likely would result in significant diversity in practice. Four respondents, including three preparers and a valuation professional, stated that an amortization period based on management’s estimate would negatively affect comparability and users’ ability to analyze entities in an industry. One preparer highlighted that two acquisitions with similar fact patterns could reach significantly different conclusions. While those respondents disagreed with using this approach as the sole method to determine amortization period, two noted that it could be used as a factor in determining a deviation from a default period.

Maximum on Amortization Period

168. Although many respondents discussed a maximum amortization period in connection with either a default or management’s judgment, some provided general comments, especially those who disagreed with providing a cap. Six respondents generally supported a cap. However, those who supported a maximum often noted contingent views. One valuation professional noted that a cap should be sufficiently high so as to not diverge from reality, suggesting 40 years. A preparer noted that a cap would be acceptable if it is no more than 10–15 years, while a trade group stated that it should be no less than 20 years. An auditor noted that a cap alone would be insufficient but may be necessary if the Board does not establish a default period to preclude the assertion that an entity has an indefinite life. That respondent suggested a long period of time because the previous 40-year amortization period was reasonable in some circumstances.
169. Fifteen respondents opposed a maximum on the amortization period. Three respondents, similar to their thoughts on a default period, noted that a maximum would be arbitrary. One consultant stated that a maximum has no conceptual basis. Several respondents explained that a maximum period would not provide decision-useful information because it would not reflect the economics of the transaction. One preparer further explained that a maximum may cause management to use an amortization period that does not reflect management’s expected period of benefit. Another noted that a cap would detract from an entity’s ability to justify a period other than a default. Other

respondents, including an individual, an auditor, and a valuation professional, instead, were concerned that a maximum on an amortization period would allow for too much subjectivity. One individual noted that it would allow professionals to manage impairment charges. That respondent explained that most entities would elect the maximum period, thereby diminishing the expense each year. An auditor stated that any method that allows for justification effectively introduces optionality.

170. One CPA society noted that a cap could be a specific number of years or a more descriptive cap, such as the longest of the periods over which the other identifiable assets are amortized, the acquired workforce is expected to turn, or something similar. A consultant, although opposed to a cap, noted that a qualitative cap could be established. That respondent recommended that a cap be the longest period of benefit of any identifiable acquired assets and components of goodwill so that the period would reflect that no benefit will be derived from goodwill once all the elements of the acquired business are fully consumed.

Minimum on Amortization Period

171. Comments on a minimum period were similar because those in agreement provided comments in connection with a default or management's estimate. Three respondents generally agreed with a minimum, including two auditors who suggested a floor to limit the use of an extremely short life and preclude an entity from nearly accomplishing an immediate writeoff. One valuation professional suggested that a floor be the greater of the useful life of the primary intangible asset acquired or 10 years.
172. Of the 19 respondents who opposed a minimum, many also disagreed with a maximum and cited very similar reasons. Those respondents noted that a minimum would be arbitrary, would not provide decision-useful information, would detract from an entity's ability to justify a period, and would not reflect the economic transaction. Others noted that a period based on a minimum would allow for too much subjectivity, thereby reducing any potential cost savings. One preparer noted that given the variability in size and complexity between acquirees, it would be difficult to determine a minimum that would be universally appropriate. A CPA society noted that a floor by itself would be inappropriate, but that it would be reasonable if linked with a period based on the primary identifiable asset or the weighted average of the useful lives of identifiable assets.
173. Two respondents, an individual and a preparer, stated specific challenges with a minimum. An individual noted that a minimum enables extremely long useful lives, making amortization costs immaterial. A preparer noted that it could arbitrarily delay recognition of losses associated with overpayment or underperformance.

Other Comments on Amortization Period

174. In addition to discussing specific alternatives for determining an amortization period, respondents provided more general comments on the topic. Two preparers noted that the amortization period is likely not as relevant or important as other considerations. One noted that the method is more important and the other noted that amortization is not a primary focus of investors. A preparer suggested providing options for an amortization period, including an option that is simple and cost effective.
175. From a conceptual perspective, one individual stated that the Board should not be concerned that the life of goodwill is ambiguous. That respondent explained that other assets have a similarly arbitrary depreciable life and that a useful life cannot be accurately determined.
176. Eight respondents, including three auditors, four preparers, and a consultant, provided comments on straightline amortization. Those respondents noted that it is difficult and too subjective to reliably develop a pattern of deterioration and that this determination is not readily determinable. Accordingly, those respondents suggested that straightline amortization would be appropriate to reduce the cost and burden of supporting a different pattern of amortization and provide consistency and simplicity. Two auditors specifically noted that goodwill does not diminish systematically over time, but that attempting to determine the pattern of diminution would require significant effort and judgment, the cost of which is not justified.

Whether Views on Model Depend on Amortization Period

177. As part of the ITC, the staff asked respondents whether their views on amortization versus impairment depend on the amortization period. Six respondents noted that their views depend on the amortization period selected. Three of those respondents noted that an amortization period should reflect the economic reality. The other three respondents commented on the relative cost benefit of any amortization period. Those respondents explained that the model and period are inextricably linked for assessing cost and benefit and that too complex of a model could reduce the benefits of introducing an amortization model. One auditor explained that if a model does not provide sufficient simplification, it may be more beneficial to maintain the current impairment-only model with a focus on simplifying this model.
178. Twenty respondents noted that their views on a period do not depend on the amortization model selected. Those responses tended to align with other views stakeholders expressed. For example, those who opposed an amortization model noted that the period over which goodwill is amortized does not sway their opposition and that the benefits lost by moving away from an impairment-only model cannot be mitigated by an amortization period. Others who are of the view that amortization is preferable often noted that amortization is a superior model and would be an improvement regardless of the period applied. One preparer stated that its view on a model does not depend on

the period as long as the amortization method allows for a reasonable basis to attribute cost over time.

Subsequent Adjustments to an Amortization Period

179. Additionally, five respondents commented on subsequent adjustments to a selected amortization period. Two respondents, an auditor and preparer, noted that reassessment of goodwill's useful life should be considered. The auditor stated that it may need to be reassessed upon impairment or a trigger, while the preparer expressed the importance of whether preparers will be required to reassess the useful life and the impairment impacts on the remaining life. A user noted that if the current annual test were to be replaced, any remaining useful lives should be reviewed annually and adjusted on a prospective basis, if necessary. Another preparer described that any change in the useful life would require management to explain the changes in the underlying assumptions used to determine the benefit goodwill represented. A valuation professional expressed concerns that an amortization period would have to be reevaluated periodically and noted that this would fail to simplify or reduce costs associated with impairment.

Other Models for the Subsequent Accounting for Goodwill

180. In addition to the models posed in the ITC regarding impairment-only and amortization models, respondents proposed other models and variations of impairment for the Board's consideration.

Direct Writeoff

181. Although not an alternative discussed in the ITC, some respondents, including several from the financial services industry, supported the immediate writeoff of goodwill. One professional association stated that goodwill fails to meet the definition of a productive asset, thereby warranting a direct writeoff. Other respondents noted that this method would best align with how users view goodwill because they disregard it in their analyses or stated that this method would lead to the greatest cost savings and comparability among entities. A professional association that supported an impairment-only model also noted that it would prefer a direct writeoff of acquired goodwill to amortization because an amortization period would require users to constantly adjust their ratios and analyses to compensate for the amortization. One consultant commented that an immediate writeoff should not be considered because it does not reflect the economics of a business combination. This is because the acquiring entity pays a premium with the expectation that the transaction will result in future returns.

Other Goodwill Impairment Models

182. Several respondents suggested that the Board improve the current impairment model. Eight respondents, including six preparers, suggested using the Topic 360, Property, Plant, and Equipment undiscounted cash flow model to assess goodwill for impairment. This method would best align the goodwill impairment assessment with the impairment assessment for amortized intangible assets, which would provide consistency. One preparer stated that this method would provide users with the most meaningful information. Two respondents noted that applying the impairment model for long-lived assets to goodwill, whereby goodwill would be assessed at the asset group level, would be beneficial. Those respondents commented that goodwill resides at the level of the acquired business unit rather than the reporting unit. Additionally, a consultant explained that the asset group level is the lowest level at which there are separately identifiable cash flows.
183. One individual suggested using financial metrics to test for impairment. For example, using return on investment to determine whether an impairment has occurred and then using the difference between target and actual earnings to determine the amount of an impairment loss. This would allow entities to monitor their investments without adding compliance costs. Furthermore, an auditor stated that one simplified recognition and measurement criterion with expanded disclosures for public business entities, consistent with the needs of their users, may provide benefit.
184. Two valuation professionals suggested permitting the subsequent reversal of impairment. They explained that this would make GAAP more consistent with IFRS Standards and the IFRS treatment of goodwill impairment is conceptually more accurate. Furthermore, allowing for the subsequent recapture of goodwill would allow users to discern the reasons for an impairment, including whether the impairment was related to cyclical market forces or a change in the value of the underlying business. Additionally, one valuation professional stated that a recapture would be appealing to new management, who could show that they were not responsible for the initial decrease in goodwill but were responsible for the subsequent return in value. Both respondents stated that goodwill should be recaptured only up to its prior carrying amount.

Potential Changes to Impairment Testing

185. The ITC asked respondents to consider potential alternatives to change the model for testing goodwill for impairment in order to reduce the costs of impairment testing. Those alternatives relate to impairment testing both within an impairment-only model and within an amortization model whereby goodwill is periodically tested for impairment. More specifically, respondents were asked to consider the frequency with which goodwill is tested for impairment and the level at which this testing is performed.

Timing and Frequency of Impairment Testing

186. A question posed in the ITC asked respondents to provide comments on the requirement to assess goodwill for impairment at least annually. Seventy-seven respondents commented on this topic. Of those respondents, some noted that the annual requirement should be retained. Others stated that the annual requirement should be removed or provided support for trigger-based impairment testing. Responses were often contingent upon whether an amortization or impairment-only model is applied for the subsequent accounting for goodwill.

Support for an Annual Impairment Test

187. Of the 77 respondents who commented on this topic, approximately a third noted that the requirement to perform an annual impairment test should not be eliminated.

Information Utility

188. Some of those respondents generally stated that an annual test is necessary to ensure that the book value of goodwill does not exceed its fair value because goodwill is not infinite lived. Similarly, four respondents commented that an annual test is useful for ensuring that impairments are identified and recorded on a timely basis. One preparer stated that triggering events are insufficient. One valuation professional noted that goodwill cannot be assumed to hold its full acquired value without testing for impairment occasionally and annual testing is a useful interval.
189. Five respondents, including three valuation professionals, noted that the annual impairment test provides investors with decision-useful information, including information about management's ability to make capital allocation decisions and enhance shareholder value, and whether an acquisition was successful or unsuccessful. One valuation professional expressed concern that eliminating the annual impairment test would remove an important signal for investors.

Qualitative Testing

190. Some respondents who supported an annual impairment test noted that a trigger-based test would be an inappropriate change to the model. A CPA society pointed out that an event-driven assessment for impairment would be similar to the qualitative screen introduced by Step 0; therefore, this respondent stated that replacing the current annual test with a similarly qualitative test that considers impairment indicators would not be beneficial. An auditor also commented that there would not be a significant difference between a trigger-based model and the current annual model for entities that effectively use the qualitative screen.
191. Concerning the argument that a triggering-event assessment would simplify the impairment model, a valuation professional stated that Step 0 already provides sufficient simplification.

Other Comments

192. While several respondents noted that the annual test should be maintained in general, other comments related to specific goodwill models. Of those who supported an annual test, some commented that the current impairment model should not be changed overall, thereby including the annual test in the provisions that should not be changed. Others noted that if the current impairment-only model is maintained, the annual impairment test also should be retained. Of those respondents, five also noted that a triggering event-based test would be appropriate in the context of an amortization model. An auditor commented that further consideration should be given to both amortization with annual impairment testing and amortization with trigger-based impairment testing.
193. Three respondents commented specifically on retaining the annual impairment test in the context of an amortization model. For example, one auditor stated that there are benefits to maintaining the rigor of an annual assessment, especially if the selected amortization period is relatively long.

Opposition to an Annual Impairment Test

194. Fifty-five respondents, including 28 preparers, suggested eliminating the requirement to perform an annual impairment test and, instead, requiring testing only upon the occurrence of a triggering event.

Cost Considerations

195. Of the respondents who supported removing the annual test, 26, including many preparers, commented that the annual impairment test is costly because of the time burden and complexity of the current annual test. Additionally, five respondents stated that removing the annual testing requirement would better align the costs and benefits of impairment testing.
196. Seven respondents, including five preparers, explained that entities already have processes and controls in place to identify impairment triggering events; therefore, a trigger-based testing approach would not significantly increase costs.

Decision-Useful information

197. Others supported eliminating annual impairment testing through discussion of the information provided to users, including five respondents that noted that the annual impairment test does not provide users with value. Conversely, 17 respondents commented that a trigger-based testing model would not change the informational content of the impairment test and would still provide users with decision-useful information. Two respondents noted that a trigger-based approach may provide users with more relevant information by enabling them to understand the effect of a business combination in a timely manner.

198. Twelve respondents commented that an amortization model with triggering event-based impairment testing would align more closely with the accounting treatment of other assets. This would improve consistency with other areas of GAAP.

Other Comments

199. Some respondents qualified their comments regarding removing the annual impairment test. For example, an individual stated that there are certain circumstances in which an annual test makes sense, such as when an acquired entity's results are lower than expected. In that scenario, entities that should perform an annual assessment may be able to inappropriately opt out of doing so under a triggering event model.
200. A preparer supported removing the annual quantitative analysis but retaining an annual qualitative analysis.
201. Several respondents suggested removing the annual test as an improvement to the current impairment model. Twenty-seven respondents, including 18 preparers, supported an amortization model with trigger-based impairment testing, and 6 respondents clarified that trigger-based impairment testing would be appropriate if the Board adopts amortization.
202. A few respondents noted that the appropriateness of a trigger-based impairment test may depend on other factors. For example, one auditor commented that if the Board were to adopt amortization, the appropriateness of a trigger-based impairment test would depend on the level at which goodwill is tested and the length of the amortization period. A CPA society stated that the discussion about removing the annual impairment test should occur together with the discussion about implementing an amortization model. Similarly, an auditor clarified that removing the annual test may be appropriate if the replacement trigger-based model is robust and objective. Another auditor suggested that the Board consider whether eliminating the required annual impairment test could lead to delayed recognition of impairment charges.

Hybrid Methods

203. One valuation professional, suggested a hybrid approach in which goodwill would not be amortized but would be tested for impairment annually for the first three years, followed by a trigger-based impairment approach beginning in Year 4. That respondent also supported amortization with trigger-based impairment in Year 1, however. Another respondent, a preparer, suggested a similar approach that would require an annual assessment for the first three years after an acquisition and on a less frequent basis thereafter.
204. A valuation professional commented that the only appropriate modification to the current impairment-only model would be to reduce testing to every other year, rather than every year. The

respondent noted that this would cut costs in half but would avoid amortization, which would wrongly require the reduction of an asset that is not wasting.

Level at Which Impairment Testing Is Performed

205. Regarding the level at which goodwill should be tested for impairment, 70 respondents provided comments. Respondents discussed several alternatives, including retaining the current guidance to test for impairment at the reporting unit level, changing the testing level to the operating or reportable segment level, as well as testing at the entity level. There was relatively more support for testing at the segment or entity level than at the reporting unit level.

Reporting Unit Level

206. Twelve respondents stated that the current test for impairment at the reporting unit level should be retained. Four of those respondents stated that there would be a loss of meaningful information if the test were to be performed at a level higher than the reporting unit. Four respondents more specifically noted that a level higher than reporting unit level would potentially shield impairments given that combining information could create a shielding effect with other well-performing areas of the business. A CPA society noted that public business entities have the necessary resources to identify reporting units and one auditor explained that practice is well established in applying the reporting unit concept and that there are processes and controls in place to identify and accumulate information at this level.

Segment Level

207. Twenty-six respondents commented that impairment testing should be performed at the operating segment or reportable segment level. Of those respondents, 14 noted that testing at those elevated levels would provide relief through reduced cost and effort. Some respondents, including two auditors, noted the difficulties of establishing reporting units and stated that determining reporting units is not required for any reason other than goodwill impairment testing. Two respondents, an auditor and a professional association, observed that testing at the segment level could reduce the number of impairment tests necessary, thereby reducing costs. Four respondents specifically noted the costs of rearranging reporting units when restructuring parts of the business and stated that testing at the segment level might reduce the effect of those reorganizations. One noted, however, that there may still be cost associated with the segment level for reallocation and disposal when segments change.

208. While several respondents noted that testing at the entity level would provide the most cost savings, those respondents questioned the reasonableness of this approach and, instead, suggested testing at the reportable segment level. Those respondents stated that this would reduce

costs and would ensure that investors still receive decision-useful information. Two respondents, including a valuation professional and a professional, noted that testing at the segment level could mask or reduce the possibility of impairments. However, one stated that applying the test at the segment level in combination with the amortization of goodwill would ensure that goodwill is eventually derecognized.

209. Six respondents commented that testing at the operating or reportable segment level would align the impairment test with information that entities already track and disclose. Several also noted that this aligns with the SEC's reporting requirements. One professional association representing preparers noted that the segment level is consistent with management's view and the way in which chief operating decision makers evaluate and make resource allocation decisions.
210. One preparer noted that there is current diversity in practice in reporting unit determinations such that enhanced guidance to clarify this determination may be needed.

Entity Level

211. Twenty-four respondents noted that impairment testing should not be performed at the entity level. Nearly all of those respondents stated that this level of testing would result in a loss of decision-useful information for users because the risk of masking an impairment through other well-performing areas of the business would be too high. They noted that entity-level testing would obscure performance and create too few impairments. A valuation professional commented that testing at the entity level would render the impairment test meaningless. One auditor stated that this level of testing would effectively require reconciling an entity's carrying amount to its market capitalization each period, although a valuation professional noted that reconciling the sum of reporting unit values to an entity's market cap is considered best practice. One preparer noted that the entity level is inconsistent with how management views the business.
212. Conversely, seven respondents, including four from the banking industry, supported impairment testing performed at the entity level. Those respondents noted that testing at the entity level would provide cost relief and reduce complexity inherent in the current impairment test. One trade group stated that entity-level testing would reduce compliance costs for preparers without reducing the usefulness of information available for users. Some of the respondents who supported entity-level testing qualified their views. One preparer stated that entity-level testing should be accompanied by amortization to ensure that goodwill does not remain on the balance sheet indefinitely, and another preparer stated that entity-level testing may be inappropriate for conglomerate entities that own different businesses with no clear synergies between them. A third preparer commented that testing at a more granular level could be necessary, but only if information indicates that the expected future economic benefits will not be realized.

Other Comments on Testing Level

213. Two respondents preferred impairment testing either at the entity level or the segment level. Of those respondents, one preparer noted that it would support either, but that segment-level testing would be a better alternative. The other respondent, a valuation professional, stated that either entity or segment level could be operational and reduce complexity and time.
214. Several respondents discussed optionality regarding the level at which impairment testing is performed. Two preparers suggested an option to elect a level other than the reporting unit level. One stated that synergies are not always attributable to one reporting unit and noted that the option would need to be elected at the time new guidance is effective or when goodwill is recorded and then be applied consistently for each acquisition. Another stated that an option may be appropriate if an entity can qualitatively state that it is more likely than not that the same impairment conclusion would be reached regardless of testing level. Two other respondents discussed optionality between the entity level and the reporting unit level. One of those respondents, a preparer, noted that disclosure would be necessary and that the election should remain consistent between periods. The other respondent, an auditor, noted that a requirement to test at the reportable segment level may also be appropriate to reduce cost and complexity. One preparer suggested an option between the entity level and the segment level, explaining that assessment at the reporting unit level is time consuming and burdensome. Two respondents, both auditors, specifically noted that they opposed optionality.

Comparability

215. In considering potential changes to the model for the subsequent accounting for goodwill, the ITC asked respondents to consider comparability and the potential effect of any changes on comparability between key populations, including the effects of optionality if the Board were to consider an option. Accordingly, the following discussion outlines respondents' comments on comparability and its importance between U.S. public business entities, between GAAP and IFRS Standards, and between all U.S. entities—both public business entities and private companies.
216. Approximately half of respondents provided comments on comparability. Those respondents generally identified U.S. public business entities as the most important population for comparability, followed by comparability between entities reporting under GAAP and those reporting under IFRS Standards. Respondents were relatively less concerned about comparability between all U.S. entities, which would require maintaining a single set of GAAP for public business entities and private companies.

Comparability between U.S. Public Business Entities

217. Of the 54 respondents who commented on comparability between U.S. public business entities, approximately two-thirds noted the importance of comparability between U.S. public business entities.
218. The discussion about comparability between public business entities centered on whether to provide an option for the subsequent accounting for goodwill. A significant number of stakeholders stated that providing an option to amortize goodwill would add to the existing cost and complexity of the subsequent accounting for goodwill.
219. More specifically, respondents noted that increasing the level of discretion in how public business entities account for items or transactions of the same nature generally reduces comparability and, by extension, the usefulness of public business entity financial reporting information. A CPA Society noted that users rely on reported financial information when making decisions such that noncomparability would be problematic. Several preparers noted that peer analysis among industry groups would be more difficult if an option were implemented. Two respondents stated that the option to amortize goodwill should not be extended to public business entities because it also would affect comparability between public business entities and private companies.
220. While allowing an option could theoretically reduce a preparer's compliance costs, respondents stated that any cost savings would be at least partially offset by unintended costs, such as those related to analyzing and rationalizing the accounting method chosen by management. Consequently, respondents generally commented that any cost savings from providing an option to amortize would not outweigh the significant reduction in benefits. Additionally, a consultant commented that providing public business entities with an option to amortize goodwill (based on cost-benefit rationale) has no conceptual justification.
221. A preparer, although it supported comparability between public business entities, noted that optionality would be preferable to a requirement to amortize. A preparer noted that if optionality were adopted, there should be a clear set of criteria to help entities determine the appropriate method of accounting based on similar transactions.
222. Approximately 10 respondents disagreed with imposing comparability or uniformity between U.S. public business entities and, instead, generally supported an option. Some commented that principles-based accounting standards that provide for flexibility in the design and operation of policies and procedures allow for more effective communication between preparers and investors. For example, a trade group noted that an option to amortize would provide the flexibility to achieve appropriate application for entities in a particular industry in which goodwill has a limited life. Another trade group supported an option that allows management discretion based on an entity's own cost-benefit assessment.

Comparability between GAAP and IFRS Standards

223. Of the 49 respondents who discussed comparability between GAAP and IFRS Standards, approximately half noted the importance of global comparability.
224. Nearly all of the respondents that support comparability between GAAP and IFRS Standards discussed international business combinations in their rationale. Many of those respondents noted that it would be counterproductive to diverge on this topic in a globalized capital market and stated that noncomparability may lead users to draw different conclusions and could hinder analysts' assessments of entities. An individual commented that with globalization, one uniform set of accounting rules will allow for better assessment of entities across borders. Some respondents commented on the incremental preparer costs for multi-national entities that consolidate legal entities for statutory reporting as a reason for maintaining convergence.
225. Other respondents observed the IASB's timing on a similar project and suggested that the FASB take this into consideration.
226. Other respondents stated that divergence on this topic may not be problematic. For example, several respondents noted that users already adjust for existing comparability issues; therefore, any divergence may not result in a significant loss of useful information. Other respondents specifically stated that notable differences already exist today between the goodwill impairment models under GAAP and IFRS Standards such that divergence is not of significant concern. For example, an individual explained that testing at the reporting unit level (or cash generating unit level for IFRS Standards) and allowing the reversal of impairments are key differences; yet they do not appear to impose a significant comparability risk.
227. One respondent stated that diverged accounting standards may be appropriate given the differing capital markets structures, economies, and business practices among foreign countries. That stakeholder also suggested that standards should not be aligned solely for the sake of comparability, but that convergence should be a factor to consider when equally acceptable approaches are being considered.
228. At least 16 respondents did not necessarily agree with the importance of comparability internationally. Many of those stakeholders noted that comparability with IFRS Standards is relatively less important than comparability in other areas.

Comparability between U.S. Entities

229. Of the 44 respondents who discussed comparability between all U.S. entities, slightly less than half stated that comparability between those entities is important. Many commented that comparability among all U.S. entities is not as important as other aspects of comparability.

230. Several respondents acknowledged that while a single GAAP approach for all entities is an ultimate goal, different entity types have different objectives and evaluation metrics. Therefore, it is unnecessary to maintain consistency in reporting requirements across these broad types of entities.
231. On a similar note, respondents commented that stakeholder needs differ among different entity types. Several respondents noted that there are key differences between user types that cause users to focus on different information within the financial statements. For example, equity investors in public companies have different informational needs than creditors of private companies and various stakeholders of not-for-profit entities.
232. Several respondents noted that comparability between all U.S. entities is relatively not important because of the existing processes in standard setting. In general, many accounting differences exist in GAAP, which includes differences in the accounting for business combinations and standard effective dates. A professional association also mentioned the justification for the Private Company Decision-Making Framework, which describes the process for determining any deviations from GAAP for public business entities. A valuation professional added that the IASB has standards for small and medium-sized entities that allow for differences in reporting between small and medium-sized entities and large entities.
233. Regarding existing practices, several respondents commented that noncomparability is not a significant concern specifically because investors and regulators are capable of making and already make adjustments to compensate for comparability issues. One respondent added that goodwill is unique to each entity and comparability on this topic appears impossible.
234. A few respondents disagreed with improving comparability with nonpublic entities if this would be used as the rationale for allowing goodwill amortization.
235. Of the 44 respondents who answered this question, approximately 15 highlighted the importance of comparability in this area. Those respondents stated the importance of having a single approach among all entities and commented that noncomparability would increase financial reporting costs and have other standard-setting implications.
236. Several respondents stated that having a different set of accounting standards for private companies creates incremental costs in the financial reporting system. A few explained the costs incurred by private companies with a public exit strategy and noted that private companies that elect the PCC alternative must restate historical financial statements when they transition into public markets. Similarly, a preparer explained the costs incurred by public business entities that make acquisitions of private companies. That respondent noted that a public acquirer may incur incremental costs to identify the intangible assets of a private acquiree if that acquiree purchased another business and elected the PCC alternative to subsume all intangible assets into goodwill.

237. Several respondents mentioned costs of noncomparability, including user confusion and reduced decision usefulness. One respondent explained that noncomparability could significantly reduce the usefulness of financial reporting information in particular industries, such as health care, in which a mix of private companies, public business entities, and not-for-profit entities operate. A preparer commented that the most important source of comparability is among all entities reporting under GAAP. For business combination accounting, having one accounting approach gives stakeholders the decision-useful information they need, regardless of the type of entity applying the guidance.
238. A valuation professional noted that valuation specialists perform similar analyses to equity analysts. Valuation professionals use information from comparable entities to develop market multiples, observe industry capital structures, and industry performance measurements. That respondent stated that noncomparability in the accounting for goodwill would complicate valuation analysis and increase costs.
239. A few respondents agreed with the importance of comparability between U.S. entities from a conceptual standpoint. A valuation professional noted that the PCC alternative allows for two otherwise identical entities to have very different financial results depending on whether or not they adopted the PCC alternative for goodwill and intangible assets.

Comparability Does Not Appear to Be a Significant Factor

240. Several stakeholders commented that comparability is not necessarily an issue in this area of accounting. Respondents noted that given the wide variety of what constitutes goodwill and because of the facts and circumstances unique to each acquisition, there are no meaningful comparisons to be made. Those respondents noted that both intangible assets and goodwill are unique to the facts and circumstances in which they arose and, naturally, there is limited comparability regarding those facts and circumstances regardless of entity types.
241. Other respondents also commented that current practice by users, preparers, and other stakeholders is well established and does not necessarily warrant change. For example, many users already have methods of adjusting their metrics to increase comparability.

Disclosures About Goodwill

242. Related to the overall discussion on the subsequent accounting for goodwill, respondents discussed goodwill disclosures, including a specific disclosure proposed in the ITC, and other disclosures proposed by respondents.

Facts and Circumstances Associated with an Impairment Test Not Resulting in Impairment Loss

243. Respondents were asked to provide input regarding the incremental costs that would be incurred and the benefits that would be obtained from a proposed disclosure of the facts and circumstances associated with an impairment test that does not result in a goodwill impairment loss. Of the 56 respondents who commented on this section, 15 supported the proposed disclosure while 33 noted that additional disclosure is unnecessary. Eight more respondents provided commentary on the topic but remained neutral.

Support for the Proposed Disclosure

244. Those who agreed with the proposed disclosure generally noted that the benefits of this disclosure would outweigh the associated preparation costs.

245. In discussing costs, most respondents who supported adding the additional disclosure stated that the costs of implementation would be low because the information already is prepared as part of the impairment test.

246. Many respondents discussed the benefit the disclosure would provide. Those respondents stated that the additional disclosure is necessary and may provide an early warning about a troubled acquisition. For example, proponents noted that the early warnings provided by the additional disclosure would help reduce the “lagging” effect often cited as a weakness in the current impairment model. Certain respondents stated that key estimates and judgments made by management in the impairment test would be highlighted in this disclosure, thus providing more insight into why a reporting unit does not have an impairment.

247. However, some respondents who agreed that additional disclosure may be valuable cautioned that limits should be placed in situations in which there is significant headroom between the carrying value and fair value of a reporting unit. Similarly, certain respondents stated that the informational benefit of additional disclosures would be the highest in situations in which there are “close calls” and a reporting unit passes the goodwill impairment test by a slim margin.

248. A CPA society, although they supported additional disclosures, suggested that the disclosures should be narrowly tailored to limit disclosures to information most relevant and informative about the facts and circumstances associated with the impairment test. According to that respondent, the disclosure requirement should provide meaningful and relevant information about the “then-existing” information used in the impairment test in order to reduce reliance on forward-looking information.

Opposition to the Proposed Disclosure

249. Thirty-three respondents disagreed that the benefits of providing this additional disclosure would outweigh the preparation costs.
250. Many preparers stated that the informational utility of this additional disclosure would be limited and ignored by users because information related to the facts and circumstances that may lead to an impairment is provided in the MD&A portion of an entity's filings.
251. Respondents who opposed the additional disclosure stated that users may misinterpret this information as foreshadowing future impairment when there is no near-term expectation of impairment. A consultant stated that if the annual testing requirement was eliminated but an entity could not conclude that a triggering event did not occur and consequently decided to perform a Step 1 impairment test for accuracy, the entity would be penalized because the proposed disclosure would require it to provide incremental information. That respondent explained that this may delay impairments because the disclosure could discourage entities from performing a Step 1 test when an assessment of impairment triggers is inconclusive.
252. One preparer commented that other areas of GAAP, such as fixed assets, must be assessed for impairment but no additional information is required to be disclosed. Another preparer stated that additional disclosures may require entities to provide competitively sensitive information that potentially could diminish shareholder value.
253. Many respondents who disagreed noted that financial statements are intended to fairly present historical financial information and that the disclosure of forward-looking information would be inconsistent with the purpose of financial reporting. Those respondents also noted the boilerplate language that inevitably would be adopted if this disclosure were required.

Other Comments on the Proposed Disclosure

254. Eight respondents were neutral on the proposed disclosure and did not specify whether the costs would outweigh the benefits of requiring disclosure about an impairment test that does not result in a goodwill impairment loss.
255. Respondents who were neutral on adding additional disclosure generally stated that it may be difficult to objectively determine what costs would be incurred and what benefits would be received until the Board determines what changes will be made to the model for subsequently accounting for goodwill.

Other Disclosures About Goodwill

256. In addition to commenting on the proposed disclosure above, respondents discussed disclosures more generally and suggested additional disclosures about goodwill.

Support for Other Disclosures About Goodwill

257. While certain themes remained consistent, overall views on goodwill related disclosures were diverse. Respondents' comments on goodwill disclosures touched on many different aspects of acquisitions and the overall composition of the goodwill balance.
258. Many respondents discussed the need for additional information about a specific acquisition. One preparer stated that more robust disclosures about what composes goodwill and why an entity believes that the acquisition will benefit the existing entity would be helpful.
259. Other respondents discussed additional disclosures pertaining to the method of amortization selected by management that would be helpful if an amortization model is adopted. One preparer stated that incremental disclosures should be included only when the amortization period is different from the default period. Several other preparers and a consultant stated that disclosures about the facts and circumstances that led to the selection of the amortization period by management would provide investors with decision-useful information. Specifically, those respondents noted that those disclosures should include the estimated life of goodwill and how that estimate was determined. Additionally, respondents stated that any subsequent changes to goodwill should be disclosed to include discussion of how and why the benefit and/or estimated life was affected. One auditor noted that management should disclose what circumstances are present when a shorter-than-default amortization period is selected for an acquisition. However, that respondent was concerned that requiring the disclosure of additional quantitative information would not be cost-beneficial because assumptions used are highly subjective that could create potential legal concerns. Additionally, that respondent noted that if additional forward-looking information is required to be disclosed, it should be in the MD&A portion of the filings as opposed to the notes to the financial statements.
260. Similar to the proposed disclosure presented in the ITC, one user stated that decision-useful information should be provided pertaining to the "cushion" remaining after Step 1 testing is completed. Proponents of that disclosure stated that adding more predictive information to the notes to the financial statements would inform investors about the progress being made by management in carrying out its acquisition plans.
261. One auditor stated that if amortization is adopted, the Board should consider requiring the disclosure of a table that presents the gross amount of goodwill and accumulated amortization and/or impairments so that users can evaluate how acquisition-related amortization affects the

results of operations. One valuation professional stated that disclosure about the amount of goodwill arising from each acquisition and the year it was recognized in the goodwill account would provide context surrounding the composition of the recorded goodwill balance.

262. One practitioner suggested improving disclosures about the reporting unit structure and how management allocates goodwill across reporting units. Another respondent stated that the disclosures currently required by GAAP are insufficient because the reporting unit concept is not clearly understood by the investing community. Additionally, they noted that the overall performance of individual acquisitions is comingled with the organic cashflows generated at the reporting unit level. That respondent recommended additional disclosures that provide insight into the performance of those acquisitions so management may be held accountable for capital allocation decisions. The same respondent also stated that management should provide users with the same information that they provide to their board of directors so that users can make their own independent assessments.

Opposition to Other Disclosures About Goodwill

263. Some respondents disagreed that additional disclosures about goodwill would be beneficial. Those respondents generally stated that additional subjective information would not provide investors with decision-useful information. Additionally, respondents noted that current GAAP requires reporting entities to disclose the goodwill associated with material acquisitions and dispositions, as well as the amount of any goodwill impairment losses.
264. Several respondents noted that the SEC requirements in Section 9510 are applicable to most public business entities. Those respondents noted that information would be duplicated if additional GAAP disclosures are adopted.
265. Respondents also highlighted operability issues with providing additional information and noted that those additional disclosures may be challenging to audit, thus increasing the overall cost of the subsequent accounting for goodwill.

Other Comments on Other Disclosures About Goodwill

266. Many respondents stated that their opinion on the need for additional disclosures would depend on the Board's decisions related to the subsequent accounting for goodwill and accounting for intangible assets. Those respondents recommended certain disclosures depending on the nature of any changes made to the current impairment model. For example, if an amortization model is adopted, respondents recommended requiring disclosure of the amortization period of the acquisition, amount of amortization expense per period, and line item where that expense is recorded. One preparer who supported a default-period amortization model preferred additional disclosure only if the amortization period selected was different from the default period.

267. One valuation professional stated that it may be impractical to broadly require additional disclosures because of the commercial sensitivity of certain information. Additionally, the needs of users may vary and any potential benefit may be lost if additional disclosures are not made at an appropriate level. This was also a common theme among many other respondents who did not comment directly on the need for other disclosures about goodwill. Many stated that increased benefit to users should be the primary reason for requiring incremental disclosures. Those respondents recommended that the staff continue outreach with various users in order to obtain information about what disclosures would be most informative.
268. One auditor noted that additional disclosures should be considered if management by-passes the qualitative assessment and performs Step 1 directly.

Other Topics for Consideration

269. In considering the topics discussed in the ITC, respondents noted that changes to the subsequent accounting for goodwill could affect other areas in GAAP that the Board should consider. These included the following:
- (a) Business combinations versus asset acquisitions
 - (b) Equity method goodwill
 - (c) Deferred income taxes and effective tax rates

Recognition of Identifiable Intangible Assets

270. The ITC, in addition to posing questions about goodwill and its subsequent accounting, asked respondents to consider identifiable intangible assets and their recognition. The section that follows outlines respondents' comments on identifiable intangible assets, including comments about whether they are sold outside of business combinations, different approaches for their recognition, and related disclosures.

Whether Identifiable Intangible Assets Are Sold Separately

271. One question in the ITC asked respondents to consider whether there are instances in which recognized intangible assets are sold outside of a business acquisition and how frequently this occurs. Fifty-two respondents commented on this question, representing diverse perspectives. A small group of respondents stated that they are unaware of intangible assets being sold outside of business combinations, but the remaining respondents noted that the sale of intangible assets does occur, although they had different perspectives regarding how frequently this happens.
272. Respondents explained which intangible assets they often see sold in transactions outside a business combination. Those intangible assets are as follows:

- (a) Tradenames and brand names
 - (b) Patents or trademarks
 - (c) Customer data, lists and portfolios, contracts and customer relationships
 - (d) Technology or IPR&D
 - (e) Other intellectual property, including formulas and trade secrets
 - (f) Rights including mortgage servicing, product manufacturing, access, distribution arrangements or rights
 - (g) Licenses, including spectrum licenses and other licenses
 - (h) Royalty arrangements
 - (i) Pharmaceutical products
 - (j) Core deposit intangible assets
 - (k) Other: content libraries, policies and procedures, websites, and copyrights.
273. Of those who noted that intangible assets may be sold outside a business combination, some stated that this occurs frequently. One respondent commented that the market activity for standalone intangible assets is substantial and estimated that the number of these transactions is similar to the number of business combinations, although the deal value of intangible assets in business combinations is greater. An auditor observed that because the economy is increasingly driven by technology, transactions relating to intellectual property are increasingly common. Others noted that the separate sale of intangible assets is more common with certain items such as trademarks, trade names, technology, or customer lists. One valuation professional noted that intangible assets are marketable assets, sometimes more so than other items on a balance sheet.
274. A small group of respondents noted that there are instances in which recognized intangible assets may be sold outside a business combination but stated that those transactions are rare. Some of those respondents explained that these transactions are rare within their industry or not common in their experience. One auditor noted that it is rare for intangible assets to be sold in situations that would not also constitute a business acquisition. They noted that either the intangible assets are incapable of generating cash flows independent from the business or are so critical to the business that separation would not be economically beneficial. A valuation professional stated that these transactions are infrequent because identifiable intangible assets on their own are less valuable than when paired with other items such as working capital, tangible assets, and an assembled workforce, for example.

Approaches for the Recognition of Identifiable Intangible Assets

275. The ITC asked respondents to comment on four different potential approaches for the recognition of identifiable intangible assets. Overall, respondents opposed changing the current guidance for the recognition of identifiable intangible assets. Respondents generally stated the following reasons in support of retaining the current guidance:

- (a) Intangible assets provide useful information for users and have characteristics distinct from goodwill such that subsuming them into goodwill may skew the information provided to investors.
- (b) Intangible assets aid users in assessing management's acquisition decisions.
- (c) Intangible assets are required to be valued in order to calculate other purchase accounting metrics.

Approach 1: Private Company Alternative

276. The first proposed approach for the recognition of other identifiable intangible assets discussed in the ITC was to extend the PCC alternative to subsume certain customer-related intangible assets (CRIs) and all noncompete agreements (NCAs) into goodwill for public business entities if goodwill is subsequently amortized. Of those respondents who commented on this approach, approximately one-third supported Approach 1 and approximately two-thirds opposed it.

Support for Approach 1

277. Overall, those respondents noted that subsuming certain intangible assets into goodwill would not reduce the decision usefulness of financial information. Several respondents stated that those intangible assets are relatively indistinguishable from goodwill and that subsuming them would reduce costs without reducing information benefit.
278. Two CPA Societies, two preparers, and two auditors commented that subsuming certain intangible assets into goodwill would result in cost savings that would outweigh any lost information benefit, even though it may still be necessary to value those intangible assets to determine the overall purchase price allocation for a transaction. Those respondents noted that the costs currently incurred to subsequently evaluate forecasts for certain CRIs that exist only at the transaction date would be eliminated by subsuming those intangible assets into goodwill.
279. One preparer stated that internal time, external consulting, and audit (internal and external) fees are components of cost under the current model. That respondent noted that those costs are not proportionate to the relatively small portion of the purchase price allocated to identifiable intangible assets. One CPA society stated that entities would not incur the incremental costs and time

associated with the preparation of detailed projections and sophisticated valuation models if certain recognized intangible assets were subsumed into goodwill; however, that respondent also stated that the resulting cost savings would be modest.

280. A preparer commented that the current recognition model provides limited benefit because intangible assets are generally not included in management reporting after initial purchase accounting. An auditor similarly stated that the measurement of identifiable intangible assets is subjective and only relevant (that is, represents fair value) at the date of acquisition or at a subsequent impairment date. That respondent noted that amortization is a noncash charge; therefore, it is typically adjusted for in user analyses. Additionally, the respondent noted that the amortized cost of intangible assets has no real relationship to the current fair value of those assets. A CPA society stated that intangible assets are often immaterial and little or no decision-useful information would be lost if they were subsumed.
281. One preparer suggested modifying this alternative so that it is more targeted by focusing only on certain intangible assets, such as NCAs and CRIs that are not based on contractual arrangements, because they are less distinct and more difficult to value separately from goodwill. Another preparer stated that valuing intangible assets is highly subjective and that it is difficult to derive economic value from those types of intangible assets separate from the business itself, which makes them similar to goodwill. Similarly, a trade group cited costs and subjectivity as issues with the current model and stated that certain CRIs and NCAs are not typically capable of being sold or licensed separately from the other assets of a business; therefore, they are indistinguishable from goodwill.
282. A few respondents stated that they would favor extending the PCC alternative for intangible assets to public business entities only if goodwill amortization also is adopted. While some respondents did not necessarily support amortizing goodwill, they stated that subsuming certain intangible assets into goodwill would be appropriate if amortization is adopted and noted that this would drive consistency in the subsequent accounting for goodwill and these types of intangible assets.

Opposition to Approach 1

283. Several respondents, mostly preparers, stated that the current guidance for intangible assets should be retained. Those respondents generally stated that subsuming certain intangible assets into goodwill would be conceptually inappropriate, would complicate the subsequent accounting for goodwill, and would result in a loss of decision-useful information. For example, a preparer explained that if a noncompete agreement is a critical asset acquired in connection with a business combination, then subsuming that agreement into goodwill could deprive readers of an adequate understating of the importance of the agreement and the details of the underlying agreement, including its term. Additionally, that respondent stated that this could effectively distort the benefit and useful life provided by the acquired goodwill. Similar comments were made regarding CRIs

because the period of benefit for those relationships may be different from the period of benefit of goodwill. Similarly, an auditor and a consultant stated that decision-useful information would be lost if certain intangible assets are subsumed into goodwill and amortized if the estimated benefit period of the intangible assets is different from the estimated benefit period of the goodwill. However, they noted that if there are limited or no differences in the expected benefit period, there would not be a loss of beneficial information.

284. A few respondents noted that they opposed changing the initial recognition criteria for identifiable intangible assets because they are unaware of significant practice issues. Those respondents also stated that any changes are unlikely to provide significant simplification and will create noncomparability and diversity in practice. On one hand, one of those respondents noted that CRIs are often valued with a model that is frequently used and well understood in practice. On the other hand, while noncompete agreements are frequently included as part of an acquisition, they are usually insignificant and often do not qualify for recognition.
285. Other respondents stated that if the PCC alternative is extended to public business entities, management should not be precluded from recording and amortizing identifiable intangible assets separately from goodwill if they prefer to do so. Those respondents stated that this would provide increased transparency. Additionally, those respondents supported subsuming certain intangible assets as long as the types of those intangible assets are separately disclosed.
286. Several respondents, including auditors, valuation professionals, and a state society, stated that the cost savings associated with subsuming certain identifiable intangible assets into goodwill would be negated by the fact that these assets still need to be valued as of the acquisition date in order to determine the contributory asset charge under the multi-period excess earnings method. Additionally, many other key components of the valuation calculation, such as weighted-average cost of capital, weighted-average return on assets, and internal rate of return, may not be as accurate if certain identifiable intangible assets are subsumed.
287. An auditor who opposed the adoption of Approach 1 suggested that the Board narrow the definition of contractual CRIs because the current guidance is broad and considers CRIs to meet the contractual-legal criterion even if there is no contract in place as of the transaction date as long as there had been a contract in the past (including a past purchase order). That respondent stated that subsuming those assets into goodwill would not be a significant change to GAAP and would not affect the accounting for other intangible assets.
288. One insurance preparer stated that additional discrete identifiable assets should be identified in addition to those that are separately recognized under current GAAP. That respondent commented that this would provide additional insight into management's rationale and strategy for making an acquisition.

Approach 2: Principles-Based Criterion

289. The second proposed alternative was the application of a principles-based criterion for intangible assets. Of those respondents who commented on this approach, approximately half supported it, and approximately half were either neutral on or disagreed with Approach 2.

Support for Approach 2

290. Many respondents who supported Approach 2 commented that a principles-based method would provide users with beneficial information because it would prompt management to be more thoughtful in analyzing the assets purchased in an acquisition. One consultant stated that certain types of intangible assets, especially those that are contractually based (for example, mortgage servicing rights, patents, and licenses), have a separately identifiable value that affects the future cash flows of the reporting entity. Separately identifying and amortizing those intangible assets over their estimated benefit period (subject to an impairment assessment if indicators are observed) would provide financial statement users with the most transparent and useful information. Several preparers, a banking trade group, and an academic respondent commented that items that have a distinct set of cash flows clearly meet the definition of an asset and should be recognized separately. A few respondents similarly commented that this approach is consistent with the current guidance in the glossary of Topic 805 that states that assets are identifiable if separable or arising from a contractual or legal right. Therefore, a principles-based approach is compatible with the definition of an asset in the Conceptual Framework.

291. Respondents also stated that the costs associated with making those judgments would be mitigated because cash flows are considered when determining the purchase price of the target. Additionally, many entities use customer retention rates (an assumption used in many CRI valuations) as an important metric for measurement of the performance of their business.

292. One preparer supported Approach 2 but only for those intangible assets that are supported by legal contracts or arrangements. This approach, according to that respondent, is best aligned with Approach 2 and would reduce cost without eliminating any benefit because it would reduce the number of intangible assets recognized but would not comingle decision-useful intangible assets with goodwill.

Opposition to Approach 2

293. Overall, respondents who opposed Approach 2 stated that a purely principles-based approach would reduce comparability among entities because it would introduce a high level of subjectivity. Additionally, there would be limited cost savings related to this approach because it would introduce complexity and require significant management judgment.

294. One preparer stated that they opposed this approach because it would introduce an additional level of subjectivity and, thus, more cost into the overall process of accounting for intangible assets. For example, this may lead to increased audit costs because entities and auditors would likely spend significant time determining whether certain intangible assets meet the definition of an asset. Similarly, several auditors stated that this method would lead to incremental costs for management in assessing intangible assets and establishing related control processes. They also noted that shifting to a principles-based approach likely would introduce noncomparability and diversity in practice because of the increased subjectivity.
295. One valuation professional stated that Approach 2 would introduce a level of subjectivity that may cause certain intangible assets, such as customer relationships, not to be recognized. That respondent stated that customer relationships and contracts are often the most valuable intangible assets for an entity; therefore, it seems inappropriate that they could not be recognized under this model.

Approach 3: Subsume All Intangible Assets

296. The third approach proposed subsuming all intangible assets acquired in a business combination into goodwill and requiring the subsequent amortization of goodwill. Of those respondents who commented on this approach, some supported Approach 3 and but the majority opposed it.

Support for Approach 3

297. Generally, respondents who supported Approach 3 stated that this approach would reduce the costs associated with separately recognizing identifiable intangible assets. One preparer also noted that this approach would simplify the model for accounting for intangible assets.
298. Another preparer stated that subsuming all intangible assets into goodwill would prevent bias toward allocating more or less of the acquisition purchase price to goodwill.
299. One preparer recommended that the Board provide management with the option to subsume all intangible assets into goodwill. That respondent noted that this option would allow entities to still recognize an intangible asset separately from goodwill when the asset is highly correlated to the performance of an acquisition. However, when certain intangible assets are not correlated with the performance of an acquisition, management should be able to subsume them into goodwill. That respondent stated that the cost of separately reporting intangible assets is justified in situations in which those intangible assets are directly correlated to the performance of an acquisition but not in situations in which separately identifying them has limited or no benefit.

Opposition to Approach 3

300. Most respondents who opposed Approach 3 stated that this approach would result in a loss of decision-useful information. Those respondents stated that identifiable intangible assets are often the predominate generator of cash flows in an acquisition, are reliably valued, and are often sold in third-party marketplaces.
301. Many respondents, including auditors and trade groups, stated that intangible assets are often bought and sold outside business combinations. Therefore, not recognizing these assets separately in a business combination would add complexity when they are subsequently sold. A preparer noted auctions and open markets as evidence that the fair value of certain intangible assets is readily determinable.
302. Additionally, one auditor stated that intangible assets often compose a significant portion of the overall purchase price in an acquisition; therefore, the usefulness of financial statements to users would be reduced if all intangible assets were subsumed into goodwill. That respondent also stated that this approach is contrary to the basis for conclusions to Statement 141(R), which stated that the decision usefulness of financial statements would be enhanced if intangible assets were recognized separately from goodwill.
303. One trade group stated that the difference between intangible assets and tangible assets is merely the physical form; the underlying value or classification as an asset is similar. Additionally, that respondent stated that intangible assets provide valuable information regarding what drives a business entity's value. An academic respondent stated that decision-useful information would be lost if intangible assets with different properties than goodwill are subsumed into goodwill. This respondent highlighted academic research that found that certain identifiable intangible assets, including noncompete agreements, exhibit a stronger association with stock price than goodwill. Therefore, this respondent stated that subsuming noncompete agreements into goodwill would result in a loss of decision-useful information.¹⁷

Approach 4: Do Not Amend Current Guidance

304. The fourth alternative proposed was retaining the existing guidance for the recognition of intangible assets. Of the respondents who commented on Approach 4, a majority supported the approach and a few opposed it. Many of the reasons provided by respondents for their opposition to Approaches

¹⁷ King, Z., T. Linsmeier, and D. Wangerin. 2019. Differences in the value relevance of identifiable intangible assets acquired in business combinations. Working paper, University of Wisconsin – Madison.

1–3 are consistent with the reasons provided by respondents for their support of Approach 4, as discussed below.

Support for Approach 4

305. Many respondents who supported Approach 4 also disagreed with Approaches 1–3 above. Therefore, the comments made in opposition to Approaches 1–3 above should be read in conjunction with the following comments noting support for Approach 4.
306. Many respondents stated that identifiable intangible assets and goodwill have different useful lives; therefore, whether goodwill is amortized, subsuming intangible assets into goodwill would distort the economic reality of an acquisition. One preparer stated that subsuming intangible assets into goodwill is not conceptually viable because intangible assets provide separate benefits from goodwill and, therefore, should be recognized and amortized separately.
307. One valuation professional supported Approach 4 because it would continue to closely align GAAP with IFRS Standards. That respondent stated that the current guidance for the recognition of intangible assets is consistent with the economics of acquired intangible assets and allows for the best estimate of the diminution of value and, thus, the costs associated with an acquisition.
308. One academic respondent stated that there is not enough academic research in this area to draw conclusions regarding specific intangible assets. However, the respondent cited prior research that suggests that the separate recognition of intangible assets provides decision-useful information about the amount, timing, and uncertainty of future cash flows.¹⁸ Another academic respondent noted research findings that suggest financial statement users obtain and process information about the different characteristics of identifiable intangible assets.¹⁹
309. One user stated that subsuming intangible assets into goodwill may disproportionately hurt individual investors and small fund managers. Approach 4 would retain the separate presentation of intangible assets for less sophisticated investors who may not have the valuation resources to separately analyze the components of goodwill.

¹⁸McInnis, J. M., and B. Monsen. 2019. The operating returns to acquired intangible assets. Working paper, The University of Texas at Austin and The Ohio State University.

Bauman, M. P. and K. W. Shaw. 2018. Value relevance of customer-related intangible assets. *Research in Accounting Regulation* 30 (2): 95–102.

¹⁹ King, Z., T. Linsmeier, and D. Wangerin. 2019. Differences in the value relevance of identifiable intangible assets acquired in business combinations. Working paper, University of Wisconsin – Madison.

- 310. A few respondents stated that the criteria for recognizing intangible assets have been applied consistently for many years and that intangible assets have become a significant part of the economy; therefore, they should not be combined with goodwill.
- 311. One preparer supported Approach 4 because CRIs must be valued to determine a contributory asset charge regardless of whether those intangible assets are subsumed into goodwill.
- 312. One preparer stated that Approach 4 is not conceptually viable because intangible assets provide separate benefits from goodwill and, therefore, should be recognized and amortized separately.

Opposition to Approach 4

- 313. Relatively fewer respondents opposed Approach 4. The comments made in support of Approaches 1–3 above should be considered in conjunction with the following comments noting opposition to Approach 4.
- 314. Most of the respondents who opposed Approach 4 did so for cost-benefit reasons. Many noted that this is the costliest method of accounting for identifiable intangible assets. In contrast, a preparer stated that it opposed this approach because it would not improve the current model and would not provide stakeholders with more relevant information. Another preparer stated that current guidance creates comparability issues with nonpublic business entities and not-for-profit entities.

Other Approaches

- 315. In addition to the four approaches discussed in the ITC, some respondents provided alternative approaches to the accounting for intangible assets. Two auditors suggested that the Board consider amending current guidance so that more intangible assets are identified as part of a business combination. Those respondents stated that although more intangible assets would be recognized, the overall increase in cost would be minimal and would be offset by a reduction in the amount of goodwill that is recognized in a business combination. Additionally, the recognition of additional intangible assets, such as workforce, would more closely align the accounting for asset acquisitions and business combinations.
- 316. Another auditor stated that the Board should consider the lack of comparability between entities that have grown organically and those that have grown through acquisition. That respondent supported further standard setting to eliminate the issue of noncomparability that arises from requiring the recognition of acquired intangible assets but prohibiting the recognition of internally generated intangible assets.
- 317. A preparer suggested an alternative accounting model whereby a separate primary intangible asset is recognized based on management's reasoning and strategy for the business combination. This "primary intangible model" would address the needs of stakeholders who place value on the

disclosure of externally acquired intangible assets, especially at the acquisition date. That respondent stated that this model would continue to provide valuable information about primary intangible assets and other indefinite-lived intangible assets but would not consume resources to report on intangible assets that are not critical to the business acquired. In this model, all other intangible assets besides primary intangible assets and other indefinite-lived intangible assets would be subsumed into goodwill.

Disclosures About Intangible Assets

318. Pursuant to the discussion of intangible assets, the ITC asked respondents to consider disclosures related to these assets. This included discussion of a specific proposed disclosure to disclose information about agreements underpinning intangible assets and other disclosures proposed and discussed by stakeholders.

Agreements Underpinning Intangible Assets

319. Fifty-four respondents provided comments regarding a proposal discussed in the ITC to disclose quantitative and qualitative information about the agreements underpinning material intangible items in the period of acquisition and changes to those agreements for several years following an acquisition. A majority of respondents opposed the proposed disclosure, while some respondents supported the disclosure.

Support for the Proposed Disclosure

320. The respondents who supported the suggested disclosure often noted that the disclosure would provide users with decision-useful information and that it would not be overly costly to produce. Two of those respondents more specifically stated that the disclosure would help users discern consequential rights, obligations, opportunities, and risks that are not discerned through balance sheet measurement and presentation or through other existing disclosures. Others noted that the information would be especially useful if certain intangible assets are subsumed into goodwill or noted that the disclosure would be cost beneficial if material changes are related to “value drivers” for the entity. While in agreement with the disclosure, four respondents explained that the disclosure should be required only for significant or material changes to the agreements.
321. Regarding the costs of providing the disclosure, a few respondents noted that the benefits outweigh the costs and four respondents stated that the costs would not be significant.

Opposition to the Proposed Disclosure

322. A majority of respondents opposed the proposed disclosure of the agreements underpinning intangible assets, generally indicating that the costs of providing the proposed disclosures outweigh the benefits.
323. Many of those respondents stated concerns that the disclosure would not be decision useful. Four respondents expressed specific concerns that the proposed disclosures would be excessive, too detailed, or too onerous for users to understand and interpret. For example, one individual noted that valuation assumptions are not understood by most observers. Others stated that the disclosure would not be useful because the underlying terms and conditions of the agreements may be irrelevant to understanding the fair value measurement or benefit of the intangible, intangible items do not directly result in future cash flows, and the disclosures may not faithfully depict the economics of the agreements. Two respondents also noted that the subjective nature of the proposed disclosures would reduce usefulness for decision makers and comparability among entities.
324. Of those who opposed the disclosure, respondents also stated that the costs of providing such a disclosure are unjustified. A few respondents noted that the proposed disclosure could increase compliance and audit costs, while others noted the costs of tracking, accumulating, evaluating, and compiling information. Some respondents expressed concern that the proposed disclosures would be inoperable for entities, noting that the disclosures would not be practical or cost effective because the intangible assets are subsumed into existing operations following an acquisition. One auditor also noted that the disclosures could be impractical depending on the number of agreements acquired by an entity in a business combination. Many respondents expressed concerns related to costs of disclosing sensitive, competitively harmful, or proprietary information.
325. Two respondents noted that the proposed disclosures result in different treatment for similar intangible assets. One noted that it would treat assets with underlying agreements differently and the other stated that the disclosure would result in different treatment for assets acquired in a business combination as compared with internally developed intangible assets.
326. Many respondents opposed the proposal, noting that current disclosures already provide users with sufficient, clear, and transparent information about the nature of intangible assets. One valuation professional also noted that this information is available for the period of acquisition as part of the purchase price allocation analysis. One valuation professional stated that research indicates that public business entities believe that current disclosures are sufficient.

Other Comments on the Proposed Disclosure

327. Seven respondents provided more neutral comments on the disclosure and did not conclude on whether the benefits of the proposed disclosures outweigh the costs. Several of those respondents noted that the incremental cost or benefit is nominal. Four respondents noted that there is potential for incremental benefit, but that costs would be high in the period of acquisition or could rise over time because of the difficulty of tracking intangible assets as they become integrated into the business. Two respondents stated that the model for accounting for goodwill and intangible assets should be selected before the extent and details of required disclosures are considered.

Other Disclosures About Intangible Assets

328. Beyond discussion of the specific disclosure proposed in the ITC, 21 respondents provided comments on disclosures about intangible assets in general or proposed other specific disclosures.
329. Ten respondents, including five preparers, stated that more disclosures are unnecessary. Those respondents generally noted that current disclosures are sufficient and that additional disclosures may be impractical given the number of agreements acquired in a business combination.
330. Eight respondents supported additional disclosures regarding intangible assets. Two respondents noted that providing additional disclosures would not be extremely costly; thus, the benefit of doing so would likely outweigh the cost.
331. Some respondents provided recommendations for additional disclosures. Two respondents suggested that the expected benefits of acquired assets be disclosed. One specified that disclosing the composition of intangible assets, as well as the sales and income attributable to each asset, would provide decision-useful information and would require management to justify the continued carrying value of goodwill and intangible assets. One preparer suggested disclosures about the nature of operations and material risks related to material intangible assets. Another respondent, a consultant, suggested disclosing more detail regarding purchase price allocations and the underlying valuations that were made pursuant to an allocation would be useful. An individual suggested management disclose the specific business reasons that indicate impairment may have occurred.
332. Three respondents suggested disclosures that are contingent on other decisions regarding goodwill and intangible assets. For example, one academic respondent specified that if a model is adopted wherein some or all intangible assets are subsumed into goodwill, it may be helpful to have additional disclosures surrounding the assets that comprise goodwill. Another respondent, a preparer, commented that if the Board were to allow for the immediate write off of goodwill, existing goodwill disclosures could be eliminated. Another preparer, based on a specific model that they suggested that was related to intangible assets, also requested disclosures related to the nature

and useful lives of primary intangible assets, as well as the amount of indefinite-lived intangible assets not subsumed into goodwill. They also suggested allowing discretionary disclosures about intangible assets subsumed into goodwill.

333. Two professional associations stated that additional disclosures should be considered only after a decision is made regarding intangible assets and the subsequent accounting for goodwill.
334. While some suggested additional disclosures, two respondents suggested removing existing disclosures. One of the respondents, an auditor, stated that disclosures regarding the weighted-average amortization period in paragraphs 350-20-50-1 and 350-20-50-4 may be unnecessary because the requirement for disclosing five years of expected future amortization in paragraph 350-20-50-2 may be sufficient to provide users with decision-useful information. In contrast, the other respondent, a professional association, recommended removing this same expected future amortization disclosure in Topic 350, Intangibles—Goodwill and Other. That respondent explained that this requirement assumes that entities will not acquire additional assets in the future, which is often unrealistic. Thus, the respondent noted that the disclosure would not provide meaningful information. Additionally, this respondent noted that there is no similar disclosure requirement for property, plant, and equipment.