

October 3, 2019

[Via email: director@fasb.org](mailto:director@fasb.org)

Technical Director
Identifiable Intangible Assets and Goodwill Accounting
Financial Accounting Standards Board

Re: File Reference No. 2019-720

To the FASB Project Members:

Globalview Advisors LLC is pleased to provide our response to the questions set forth in the FASB Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

GVA – From an accounting perspective, goodwill is recognized as residual purchase price, if any, in the context of a business combination pursuant to ASC 805. From a “Main Street” perspective, goodwill (economic goodwill is a term the International Valuation Standards Council and others have used) is generally recognized as the intangible value associated with a going concern business. From this perspective, economic goodwill includes all intangible asset values.

From a valuation and cash flow standpoint, goodwill captures value not yet defined. In valuing other intangible assets such as existing technology or customer base, valuation models typically capture value attributable to those assets with the remainder of the cash flow in discrete periods and terminal period being attributable to not yet defined elements which comprise goodwill. Given this, it is hard to argue goodwill should be amortized in a predictable fashion. The more accurate model is the current model where in effect impairment is measured by examining whether those yet to be defined elements comprising goodwill will materialize in cash flows.

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

GVA – Yes. For public entities, the costs are modest, and the information is meaningful to users of financial statements. The CFA Institute (“CFI”), a global not-for-profit organization focused on advancing the investment profession, has noted at several instances the benefits to stakeholders of this additional information.

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

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GVA – We do not believe a goodwill amortization model leads to accurate accounting results. As we believe the costs to test goodwill for impairment under ASC 350 are modest, we oppose goodwill amortization.

Many companies have the internal capability to generate the fair value estimates. The amount of time developing the estimates and reviewing the estimates for accounting use are not significant relative to the benefits of providing this information to users of financial statements.

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

a. A default period

b. A cap (or maximum) on the amortization period

c. A floor (or minimum) on the amortization period

d. Justification of an alternative amortization period other than a default period

e. Amortization based on the useful life of the primary identifiable asset acquired

f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired

g. Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

GVA – We do not believe an amortization model for goodwill is appropriate. All the choices provided lead to inaccurate financial statements and none of these options recognizes the expected accounting life of goodwill.

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

GVA – No. Our conclusion is based on the accuracy of accounting information to be provided and the benefits of more accurate information to users. Acquisitions of firms are an important business strategy for many firms. Reducing the information available to help users better understand these transactions is not in the best interests of the public.

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

GVA – A requirement to amortize the value of an asset that may be increasing in value does not result in accurate accounting estimates. It is unlikely that investors would receive decision useful information associated with the amortization life selected. The International Valuation Standards Council published a "Perspectives Paper: Business Valuation – *Is Goodwill a Wasting Asset?*". This paper provides an extensive justification for the indefinite life selected for goodwill. A finite

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life for goodwill amortization is inconsistent with the indefinite life for goodwill supported in the paper and by many other finance and valuation professionals.

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

GVA – Yes, this change eliminated the significant efforts required for the ASC Step 2 calculation. This change made US GAAP consistent with IFRS. While Step 2 procedures are technically appropriate, we believe the added precision does not merit the additional cost in many instances.

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

GVA – Update 2017-04 does reduce the usefulness of financial reporting information. However, we believe on a cost / benefit basis Update 2017-04 is appropriate.

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

GVA – At the time of the release of Update 2011-08, there was significant uncertainty regarding how to audit the representations included in a qualitative screen. Given uncertainties and limited experience with qualitative screens, some firms continued to develop quantitative based fair value estimates.

Our sense is the cost of developing and auditing the qualitative screen has declined due to increased familiarity. The incremental costs of using a quantitative model over a qualitative model are not significant. Factors include the relatively straightforward nature of the analysis. Also, much of the information is already being developed for other management planning and audit reporting purposes.

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

GVA – Testing goodwill on an annual basis or when possible impairment is suggested is appropriate. No changes are required to the current model. In the event goodwill is amortized for financial reporting, a trigger-based test for impairment with a quantitative model is appropriate.

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

GVA – We oppose testing at the entity level. Many public entities have multiple operating segments and reporting units. Insights on the performance of a specific operating segment/reporting unit are important to users of financial statements. Testing at the entity level would only be appropriate for firms that operate as a single reporting unit.

11. What other changes to the impairment test could the Board consider? Please be as specific as possible.

GVA – The current impairment testing model for goodwill is reasonable and no changes are needed.

There is divergence in practice in reporting unit determinations. Enhanced guidance to clarify the determination of reporting units would reduce divergence in practice. As an alternative, testing at the segment level rather than the reporting unit level would be an alternative means of addressing this issue.

For possible indefinite lived intangible assets, our experience with auditors and other valuation professionals suggests that the accounting guidance for the determination of an indefinite or finite life of intangible assets such as trade names leads many registrants to amortize the value of trade names they intend to use into the indefinite future. High level FASB guidance on the determination of an indefinite life for trade names contained examples that set an overly high bar for concluding an indefinite life is reasonable. Like goodwill, impairment testing of trade names is preferable to book amortization over an arbitrary accounting life.

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

GVA – As noted in other comments in this response to the ITC, Globalview supports an impairment only model with annual testing and possibly more frequent trigger-based impairment testing. The testing should be performed at the operating segment or reporting unit level. We only support this alternative and do not support any other alternatives.

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

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

GVA – Cost savings achieved from not valuing all acquired intangible assets would be limited, if any. The Private Company election was intended to reduce the scope of purchase price allocations but in many cases it has not. Reviewers at audit firms may require that customer related assets be valued to develop more technically correct WACC/WARA/IRR reconciliations. Alternatively, they may perform shadow calculations to test for reasonableness.

As clients expect lower fees associated with the Private Company election, this fee expectation can lead to fee levels that could result in insufficient work being performed. The Mandatory Performance Framework and the Certified in Entity and Intangibles valuation designation were developed in connection with concerns about the scope of valuation work performed for financial reporting projects.

The concept of the WARAs (Weighted Average Return on Assets) is an important diagnostic for discount rate estimates. Excluding a key intangible asset will reduce the accuracy of the WARAs reconciliation and discount rate estimates for any intangible assets valued using the Income Approach.

Customer-related intangible assets are an important component of most business acquisitions. Excluding these from the purchase price allocation will dramatically reduce the usefulness of information presented to financial statement users on the accounting for business combinations. Cost savings from eliminating customer-related intangibles would be nominal. Due to potential inaccuracies in discount rate estimates, the accuracy of financial statements would be reduced, and costs could increase as auditors determine how to best audit an ASC 805 model which does not capture all relevant assets.

We do not believe any separable/ contractual assets should be subsumed into goodwill. The amortizable lives of the separable assets are different from the life of goodwill and would distort the amortization expense.

14. Please describe what, if any, *decision-useful information* would be lost if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets, or other items) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific analyses you perform that no longer would be possible.

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GVA – Customers are typically one of the most important assets of an acquired firm. Knowing whether customers or another asset are the primary asset of an acquired firm is an important insight. Also, users of financial statements would benefit from knowing the retention / attrition rate for customers and the estimated economic life of the customers.

Valuations of noncompete agreements could be useful in helping analysts understand the perceived barriers to entry impacting an acquired firm. The cost of these valuations is modest relative to the potential benefits from the additional disclosures.

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

GVA – Customer-related intangibles are an important business asset whose value can be measured with reasonable certainty. When customer-related intangibles are the primary asset of a business enterprise, valuation using the Excess Earnings Method should provide reasonable estimates of fair value. Customer retention / attrition can be measured with reasonable precision and this information is useful to the acquirer and to the users of financial statements.

Noncompete agreement valuations involve several subjective assumptions with little, if any, market data available to help support estimates. Estimates such as the probability of competition and the financial impact and duration of the competitive impact are presently difficult to estimate.

The scrutiny placed on intangible asset valuations since the inception of ASC 805 has led to dramatic improvements in valuation methodologies and the development of significant valuation assumptions. Scrutiny on technology and customer valuations has led to the release of guides that have advanced valuation practice. Noncompete agreements have received little discussion within the valuation profession through the present. Increased focus on noncompete agreement valuations will lead to enhancements in the valuation of this asset.

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

GVA – Technology and trade names are licensed, transferred, or sold periodically. Intellectual property assets such as copyrights involving film, music and other media rights also transfer on a frequent basis.

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

a. Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill

b. Approach 2: Apply a Principles-Based Criterion for Intangible Assets

c. Approach 3: Subsume All Intangible Assets into Goodwill

d. Approach 4: Do Not Amend the Existing Guidance.

GVA – From order of most preferred to least preferred – Approach 4, 2, 1 and 3.

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

GVA – The existing asset definitions are appropriate. This guidance includes recognition of CRI and NCA as individual assets. While customers are infrequently sold separately from the business of which they are a part, revising the asset definition to exclude CRI as an asset is not appropriate – especially given their importance to many businesses and the significant allocations of value to CRI.

The ITC includes language indicating that many lenders did not use information on CRIs and NCAs in their lending decisions. As tools for understanding important attributes of CRIs have been limited, we are not surprised that lenders might not currently place reliance on this. ASC 805 requirements have led to dramatic increases in understanding of the strategic importance of intangible assets and their contribution to business success. Numerous public firms comment on their customer retention rate (an important assumption in many CRI valuations) which they believe is an important metric for measurement of the performance of their business.

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

GVA – By subsuming finite lived intangibles into goodwill, the goodwill value is a mix of indefinite lived and finite lived elements. Amortizing the total value of goodwill is inaccurate for reasons previously mentioned. An impairment model would better reflect economic reality. If components are not declining in value, it does not make sense to include an expense for a decline in value.

Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets

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

GVA – The incremental costs with these disclosures would be very modest. The benefits to users of financial statements would significantly exceed these costs. The benefits from additional disclosure need to be weighed against the potential adverse impact of disclosing proprietary information.

21. What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

GVA – None noted.

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

GVA – The incremental costs would be nominal. The benefits from additional disclosure need to be weighed against the potential adverse impact of disclosing proprietary information.

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

GVA – None noted.

Section 4: Comparability and Scope

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

GVA – Comparability of information would be beneficial to users of financial statements. Greater comparability would be achieved by requiring the valuation of all internally generated intangibles. However, our sense is that there is only moderate support for the valuation of internally generated intangibles. Users of financial statements would still benefit markedly by understanding the different assets of acquired firms and their expected economic lives.

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

GVA – Providing registrants with options on these valuation / accounting decisions could lead to divergence in practice and reduced comparability of data. The reductions of costs to registrants would be significantly less than the possible increased costs to users of financial data that would face less comparable financial statements. The reduced costs to registrants would be much less than the reduced benefits (and increased costs to stakeholders) from the loss of meaningful, comparative data.

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

GVA – IFRS allows reversal of goodwill impairment losses while US GAAP does not. The IFRS treatment is conceptually more accurate than the treatment of goodwill impairment under US GAAP, particularly in volatile stock markets. It allows user of financial data to discern reasons for goodwill impairment – whether from the impact of cyclical and/or volatile stock markets or from a definitive change in the inherent value of the subject business. Limiting goodwill step-ups only to the amount of goodwill originally booked in an acquisition is reasonable.

Stakeholders will be more focused on the potential impairment of goodwill rather than the recapture of prior goodwill impairments. A change in US GAAP to be consistent with IFRS and allow possible recovery of goodwill impairments is a reasonable change to US GAAP.

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

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

GVA – We would like to see US GAAP and IFRS brought into alignment (item d). We are also supportive of item B. The smaller size of private business entities, the reduced financial and management resources of many of these entities and the potential for modest benefits relative to costs suggest accounting options for these entities are reasonable.

However, larger private entities (e.g. US\$0.5 billion or more) may have more investors, secondary markets, and/or propensity for sale to another private investor or to a strategic buyer. Therefore, comparability for these entities would be beneficial.

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Other Topics for Consideration

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

GVA – None currently.

Next Steps

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

GVA – Yes

Very truly yours,
Globalview Advisors LLC

A handwritten signature in black ink that reads "Raymond Rath". The signature is written in a cursive, slightly slanted style.

Raymond Rath, ASA, CEIV, CFA
Managing Director