FASB INVITATION TO COMMENT

Issued: July 9, 2019
Comments Due: October 7, 2019

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Comments should be addressed to:

Technical Director
File Reference No. 2019-720

Financial Accounting Standards Board

Notice to Recipients of This Invitation to Comment

The Board invites feedback on all matters in this Invitation to Comment. We request comments by October 7, 2019, by one of the following methods:

- Submitting comments through the electronic feedback form
- Emailing comments to director@fasb.org, File Reference No. 2019-720
- Sending a letter to "Technical Director, File Reference No. 2019-720, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

A copy of this Invitation to Comment is also available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Invitation to Comment

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PURPOSE AND BACKGROUND

This Invitation to Comment (ITC) is being issued as part of the Financial Accounting Standards Board's (FASB) project on certain identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill. In previous outreach, the staff received mixed feedback from users, preparers, and practitioners of financial reports on this topic. Consequently, it is presently unclear whether the benefits justify the costs for public business entities (PBEs). Because the Board has not received conclusive feedback about whether a change to financial reporting is warranted and, if so, whether cost-effective solutions that maintain or improve decision usefulness are feasible, the staff is issuing this ITC to solicit additional feedback. Your insight is requested at this time to gauge:

a. Whether changes to financial reporting should be addressed by the Board
b. Whether and how to proceed with simplifications and/or improvements to these topics, and
c. How optionality in the accounting for intangible assets and goodwill is viewed.

An ITC is a staff document in which the Board does not express any preliminary views, and subsequent steps in this project may or may not result in amendments to existing standards. The need for and the timing and content of any amendments will be determined after receiving feedback on this ITC. Responses to this ITC will help the Board understand whether it needs to consider amendments to the guidance to address the cost and benefit of information about goodwill and intangible assets and, if so, what amendments to consider. Accordingly, your response to this ITC will undoubtedly affect standard setting by helping the Board with its future decisions on this topic.

The Board strives to issue standards only when (1) the expected improvement in the quality of information provided to users—the benefit—justifies the cost of preparing, auditing, and providing that information or (2) reduced cost can be obtained in a manner that does not diminish the quality of information. Present and potential investors, creditors, and other users of financial information benefit from financial reporting, while the cost generally is borne directly by the company and thus ultimately borne primarily by current investors. Over the past several years, the Board received feedback from stakeholders indicating that the benefit of certain intangible asset and goodwill impairment information may not justify the cost of preparing and auditing that information.

Some stakeholders indicated that the cost to perform the goodwill impairment test increased as a result of the guidance in FASB Statement No. 157, *Fair Value Measurements*, which was issued in 2006. This concern is documented in the Post-Implementation Review of FASB Statement No. 141 (revised 2007), *Business Combinations*, which was issued in 2013. In response to that feedback, the Board issued several Updates to address those concerns. Some of those

Updates are applicable for all entities, for example, Accounting Standards Updates No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* and No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Others are alternatives for private companies and not-for-profit entities, for example, Accounting Standards Updates No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill,* No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination,* and No. 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*.

A recent survey (Duff and Phelps, 2017, "2017 U.S. Goodwill Impairment Study") indicates that entities widely adopted the optional qualitative test made available to all entities via Update 2011-08. During initial adoption, however, some stakeholders commented that the qualitative test requires subjective judgments and extensive documentation that result in increased costs.

The Private Company Council (PCC) and stakeholders provided feedback that the private company accounting alternatives (issued in Updates 2014-02 and 2014-18) generally have reduced cost and complexity without significantly diminishing the usefulness of the information for users.

In recent years, the Board has continued to receive feedback from PBEs that the benefits of the accounting for intangible assets and goodwill do not justify the cost to prepare and audit the information. For example, some users stated that goodwill impairment charges are often a lagging indicator of the economic factors that lead to a goodwill impairment; therefore, impairment charges are nonrecurring and adjusted in investors' analyses or eliminated through the use of a non-GAAP metric. Moreover, some users are concerned that measures of certain identifiable intangible assets are not verifiable, comparable, or distinguishable from goodwill and, therefore, do not necessarily provide information useful to investors' decision making and that simply knowing the existence of intangible assets is sufficient for their analyses. For those users, the current financial reporting requirements provide information of questionable utility.

Nevertheless, some financial statement users indicated that the goodwill and intangible asset information currently reported is useful. Generally, those users explained that impairment charges confirm their beliefs about an acquisition that is underperforming against management's original expectations. Users also explained that a goodwill impairment charge holds management accountable for poor capital-allocation decisions, despite that not being the purpose of a goodwill impairment test. Some users also benefit from understanding the existence and value of identifiable intangible assets recognized on the balance sheet despite concerns about measurement reliability and verifiability. Preparers claim that those benefits are insufficient to justify the cost and complexity of valuing certain intangible assets and performing the goodwill impairment test.

In May 2019, the Board issued Update 2019-06, which extends the private company accounting alternatives related to goodwill and certain intangible assets to not-for-profit entities. As a result of this issuance, PBEs are the only type of entity without an accounting alternative to amortize goodwill, perform goodwill impairment testing upon a triggering event at an entity level, and subsume certain items reported as identifiable intangible assets into goodwill. However, extending those alternatives to PBEs creates other comparability issues. For example, there are global comparability issues to consider. Those issues are discussed in the *Comparability and Scope* section of this ITC*.*

Feedback on this ITC will help the Board understand whether a change to the accounting for goodwill and intangible assets is warranted and, if so, how the Board might approach simplifications or improvements in this area. The Board also will consider related issues about comparability.

History

Issues surrounding business combinations, goodwill, and intangible assets are not new; they date back to the origination of the FASB in the 1970s, and earlier as it relates to consideration by predecessor standard setters and the profession. Over the last 50 years, standard setters have undertaken numerous projects related to these topics.

Before 2001, entities had two ways to account for mergers and acquisitions. APB Opinion No. 16, *Business Combinations,* required, under certain conditions, either the pooling-of-interests method or the purchase method to account for a business combination. APB Opinion No. 17, *Intangible Assets,* required goodwill and other intangible assets to be amortized over their useful lives, not to exceed 40 years. Opinion 17 required amortization on the basis that goodwill is not infinite-lived and, accordingly, goodwill should be reduced to zero over some period of time. Opinion 17 required amortization on a straight-line basis unless another method was demonstrably more appropriate. It also required assessments for additional write downs. In summary, the basis for conclusions notes that although amortization of goodwill could lead to premature reductions in goodwill, the impairment model could lead to delayed loss recognition.

In 2001, the Board issued FASB Statements No. 141, *Business Combinations,* and No. 142, *Goodwill and Other Intangible Assets*. Those Statements removed the pooling-of-interests method and removed the requirement to amortize goodwill. The pooling-of-interests method and the acquisition method yielded drastically different financial reporting results for economically similar transactions. Thus, the pooling-of-interests method was removed to enhance the comparability of financial reporting information for users. In addition, the pooling-of-interests method did not reflect the economic value of the consideration given in a business combination.

Thus, the pooling-of-interests method was removed to enhance the faithful representation of the acquisition cost of a business combination for users.

Initially, the Board proposed retaining the requirement to amortize goodwill. Following feedback on the 1999 Exposure Draft, *Business Combinations and Intangible Assets*, however, the requirement to amortize goodwill was removed. The basis at the time for removing the requirement to amortize goodwill on a straight-line basis over a fixed period was that not all goodwill declines in value and for goodwill that does decline in value, it does not decline systematically over time. The Board also noted that goodwill may not be infinite lived, but it is indefinite lived (for a description of this decision, see the basis for conclusions section of Statement 142). Thus, the requirement to amortize goodwill was removed and, instead, goodwill is required to be tested at least annually for impairment. The details of the goodwill impairment model required under Statements 141 and 142 are codified in Topic 350 and are discussed in a later section.

Statements 141 and 142 also introduced the present accounting model for reporting of identifiable intangible assets. Under Topic 805, an acquirer recognizes all items meeting the criteria for reporting as identifiable intangible assets acquired in a business combination at their acquisition date fair values. Intangible assets are categorized as either finite lived or indefinite lived. Finite-lived intangible assets are amortized and tested for impairment, while indefinite-lived intangible assets are tested solely for impairment.

In 2009, the business combination guidance in Statements 142 and 141(R) was extended, with certain modifications, to not-for-profit entities through the issuance of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions.*

Because of stakeholders' concerns and because the business environment continues to evolve, the Board is issuing this ITC to determine whether changes to the current accounting model are warranted.

Overview

This ITC includes the following sections, one for each major area that the Board will consider in this project. The sections are as follows:

- Section 1: Whether to Change the Subsequent Accounting for Goodwill
- Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination
- Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets
- Section 4: Comparability and Scope
- Other Topics for Consideration.

Each section includes a summary of the potential issue and a broad range of approaches that the Board could consider in responding to the potential issue. The approaches described in this ITC are not intended to represent Board members' views, and they do not signal the likelihood of any particular accounting change. Rather, the approaches are presented with questions to solicit stakeholders' feedback that can inform the Board's future deliberations.

The issues in this ITC are presented primarily in the context of PBEs for two reasons. First, PBE stakeholders expressed mixed views that warrant broader outreach on this topic. Second, there are accounting alternatives available to other types of entities. However, any future changes to the accounting for intangible assets and the subsequent accounting for goodwill could be extended to all entities. Because the Board ultimately will consider whether to amend the guidance in this area of financial reporting in the context of all entities, the staff encourages feedback from stakeholders of entities other than PBEs.

There are questions listed throughout this ITC. Some questions ask respondents to select their preferred or acceptable approach or approaches from a cost-benefit perspective. Other questions ask respondents to assess the relative importance of or support for a specific approach. Additionally, some questions solicit other ideas stakeholders may have for the Board to consider. The Board will review the responses to this ITC before deciding how to proceed. The Board will use this feedback to determine whether a change is justified and, if so, whether there are viable solutions. The questions focus on information that will assist the Board in identifying the cost-benefit imbalance, if any, and in planning its next steps for rebalancing the costs and benefits on those topics, if necessary.

Because this subject is already broad in nature, this ITC does not cover certain topics as described later in *What This ITC Does Not Consider and Why*. The ITC however, discusses other topics, including the activities of other standard setters related to goodwill and intangible assets and potential interactions with other Topics. The Board also is interested in feedback about any other major areas of the accounting for identifiable intangible assets and goodwill that stakeholders believe the Board should revisit.

We recognize that responding to this ITC could take a considerable amount of time. We value your time and input and have provided multiple ways to accept your feedback. To expedite the process, electronic submissions are encouraged. The questions for respondents are listed within each section and are repeated in *Appendix: Questions for Respondents*.

The Board has provided a 90-day comment period with comments due by October 7, 2019.

TOPICS FOR CONSIDERATION

Section 1: Whether to Change the Subsequent Accounting for Goodwill

Goodwill is recognized on the balance sheet as the difference between the purchase consideration and the fair value of the identifiable assets and liabilities received in a business acquisition. The objective of this ITC is to focus on the subsequent accounting for goodwill, and, therefore, initial recognition of goodwill (other than what is later discussed with respect to certain purchased intangible assets and their consequential effect on goodwill) will not be the focus of this ITC.

Nevertheless, purchase consideration transferred in a business combination that gives rise to goodwill is relevant information because it typically represents a transfer of value at a specific point in time. In the FASB Master Glossary, goodwill is defined as "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." Not surprisingly, stakeholders have often provided different views on what goodwill represents. In fact, the basis for conclusions in Statement 141(R) describes several possible components of goodwill and attributes some components to "core goodwill." Among others, some of the main components include (a) fair value of the expected synergies and other benefits from combining the entities' net assets and businesses, (b) fair value of the "going concern" element which is the ability of the established business to earn a higher rate of return than if the collection of net assets were acquired separately, and (c) fair values of other net assets that had not been recognized by the acquired entity. The Board is aware of and understands the conceptual debate on what goodwill represents. As a result of these differing perspectives and the impracticability of compartmentalizing goodwill, for many years standard setters have often been challenged by stakeholders to determine the most representative method for subsequent accounting.

To provide context to your subsequent responses, we begin with the question:

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

More recently, the Board has been considering whether to change the subsequent accounting for goodwill for cost-benefit reasons and whether there are viable solutions. The Board received feedback from some stakeholders that the benefits of the subsequent accounting for goodwill do not justify the costs. Stakeholders suggested several approaches to address this perceived issue; however, the input has not indicated a clear path forward for the Board. This section of the ITC seeks to stimulate additional input on (a) whether stakeholders believe there is a cost-benefit issue with the subsequent accounting for goodwill and, if so, (b) whether there are viable potential changes to the accounting and subsequent measurement that could address the perceived issue.

Some preparers and auditors indicated that the existing goodwill impairment model imposes significant cost into the financial reporting system, even after implementing the optional qualitative screen and removing Step 2 of the impairment test.

Users' feedback is mixed, however. Some users expressed that the alternative to an impairment model—goodwill amortization—provides users with limited or no informational value, particularly if goodwill is amortized over a default period. Those users would prefer to retain the existing impairment model because they believe impairments can confirm the existence of an underperforming acquisition, which they view as useful information. In addition, some users assert that impairment charges are a mechanism for holding management accountable for poor capital allocation decisions.

Not all users agree with the views described in the preceding paragraph, however. Some users explained that impairments do not provide meaningful information and cited numerous reasons, including:

a. Goodwill impairments are nonrecurring charges and often are removed from investors' analyses or eliminated through a non-GAAP metric.
b. Impairments to goodwill do not provide users with predictive value. They are confirmatory, at best, after observing other information, including other parts of the financial statements such as cash flows.
c. Goodwill impairment charges are generally a lagging indicator of the external and internal economic factors that give rise to goodwill impairment. Users observe other metrics and trends that indicate a decline in recognized goodwill long before an entity recognizes a goodwill impairment. Moreover, an impairment loss is viewed as much less useful beyond the first few years after an acquisition.
d. Information about the existence of an impairment in goodwill is useful, but the estimated amount of that impairment is not.

Therefore, some investors would support moving to an amortization model to reduce the cost borne by present investors given the limited informational utility of the goodwill impairment model.

The FASB also notes that impairments or a lack thereof appear to be misunderstood by certain investors. For example, some investors assert that the presence of a goodwill impairment is a sign of a poor capital allocation decision. However, realized investment returns can be exceedingly successful and an entity could still recognize a goodwill impairment as a result of subsequent unexpected market value decline. Because goodwill is generally not infinite lived, but rather indefinite lived, impairment may represent cumulative amortization not previously recognized.

Preparers acknowledged that the impairment model may convey some benefit for some users but are concerned that those benefits are limited and do not justify the cost and complexity of performing the goodwill impairment test. Preparers noted the following sources of cost and complexity:

a. There is subjectivity in determining the fair value of reporting units, which also increases auditor risk and consequently audit cost.
b. Because goodwill must be tested at the reporting unit level, entities incur costs to identify reporting units, assign goodwill to reporting units, and reallocate goodwill following a reorganization, acquisition, or disposition of a part of the entity. This is particularly costly for entities that do multiple, successive acquisitions.
c. Many entities do not have the internal expertise to undertake the necessary detailed financial modeling and, accordingly, must hire external valuation specialists.

Those cost concerns may not affect all entities. For entities in industries that are performing well, the goodwill impairment test may not be costly because an entity would presumably use the qualitative screen to avoid performing a quantitative goodwill impairment test. Even for entities that are likely to perform the goodwill impairment test, not all preparers agree that the costs outweigh the benefits. In fact, some preparers stated that the benefits to the users of financial statements outweigh the costs. Those preparers explained that analyzing reporting units is beneficial, and they would continue to perform this analysis even if it were not required under the goodwill impairment test.

Investors', preparers', and practitioners' differing views lead to the following question for respondents related to costs and benefits:

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.

This ITC seeks feedback on whether a change is warranted. The remainder of this ITC assumes that the cost of the present accounting model exceeds the benefit and that a change is warranted.

The remainder of this section describes two non-mutually exclusive broad approaches, which may address that assumed issue (1) amortize goodwill or (2) simplify the goodwill impairment test. In addition to seeking feedback on whether to amortize goodwill and/or simplify or change the goodwill impairment test, this section also seeks feedback on the appropriate amortization period.

Section 1—Approach 1: Amortizing Goodwill

Assuming that a cost-benefit issue exists with the subsequent accounting for goodwill, one approach to addressing the issue would be to reintroduce goodwill amortization for PBEs. An amortization approach would likely still include an impairment test because reviews for impairment are typical across items on the balance sheet. Many PBE preparers and auditors support goodwill amortization. On the basis of stakeholders' feedback on the private company accounting alternatives, amortizing goodwill could result in significant cost savings for entities and auditors of PBE financial statements.

On the basis of users' feedback, it is unclear whether the usefulness of information would significantly decrease if the Board were to require or allow goodwill amortization. Some users indicated that they likely would "add back" goodwill amortization charges because they represent noncash expenses during that period. However, users indicated that they also add back goodwill impairment charges because they also represent noncash charges. Some users noted that they view impairment as a mechanism for holding management responsible for its capital allocation decisions. However, amortization also is a mechanism for holding management accountable because management would be required to expense a portion of the purchase consideration paid over a period of time.

Users note that goodwill amortization would make impairment of goodwill less likely, which would reduce the likelihood of receiving the information they assert is useful that accompanies an impairment charge. Users often comment that the underperformance of an acquisition against management's expectation is most evident in the first few years following an acquisition and it is during this time when impairment information tends to be most useful. However, when an acquisition underperforms against management's expectation during the first few years following an acquisition, an impairment charge might be necessary even with amortization.

Some stakeholders noted that there is a conceptual basis for the existing goodwill impairment model, specifically, that goodwill does not systematically decline in value over time and some acquired goodwill may not decline in value at all. Therefore, according to this view, goodwill should remain on the balance sheet unless it is impaired.

Other stakeholders disagree, however, and noted that there is a conceptual basis for goodwill amortization. For example, some stakeholders explained that the cost incurred to acquire a business should be allocated to the periods in which an entity recognizes the benefits of the acquisition. In other words, goodwill amortization better reflects an entity's profit or loss after a business combination, net of the cost of investment. Those stakeholders noted that most forms of allocation (e.g., amortization and depreciation) are not intended to reflect a decline in value of an underlying item but, rather, are intended to systematically allocate cost to the period(s) of benefit.

These differing views across and among investors, preparers, and practitioners lead to the following question for respondents:

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.*

Goodwill Amortization Period

If the Board requires or allows goodwill amortization, it will need to address the period over which goodwill is amortized. Therefore, the Board is seeking feedback on different approaches to determining the goodwill amortization period. Alternative goodwill amortization period approaches generally incorporate one or more of the following characteristics:

a. A default period
b. A cap (or maximum) amortization period
c. A reasonable estimate
d. Justification of an amortization period.

Some of the characteristics described above are inherently more costly and complex. Specifically, amortization period approaches that allow for management judgment would be more subjective and more costly. At the same time, amortization periods that allow for management judgment could convey useful information about the period over which the benefits of an acquisition are expected to be realized. In contrast, amortization methods that prescribe a default period would be less costly and more uniform across entities, but potentially less informative about management's expectations regarding the period of benefit.

The Board received mixed feedback on whether it is appropriate to amortize goodwill over a default period. Some stakeholders indicated that a default period is the most effective way to reduce costs for entities. However, other stakeholders opposed the imposition of a default period because it is less appropriate for entities that acquire businesses that convey benefits over a period expected to exceed the default period.

If the Board decides to require goodwill amortization over a default period, the Board would need to consider the length of the default period. Some stakeholders suggested that the Board extend the PCC alternative to amortize goodwill over a 10-year default period for consistency and because the PCC alternative has significantly reduced the costs for preparers of entities that have elected the PCC alternative to amortize goodwill.

Alternatively, the Board could consider a default period other than the 10-year period included in the PCC alternative. Some stakeholders stated that goodwill amortization should be required over a period shorter than 10 years. Proponents of a shorter amortization period noted that the rapidly changing business environment could render goodwill less valuable sooner. Some stakeholders indicated that goodwill is more relevant in the periods immediately following a business combination. However, opponents noted that a shorter amortization period could conceal underperforming acquisitions. This is one reason users consistently expressed significant concern about the immediate writeoff of goodwill, which is the amortization period taken to its shortest extreme.

Other stakeholders maintained that goodwill should be amortized over a period exceeding the 10 years required under the PCC alternative. Some of those stakeholders, particularly those who acquire businesses that are expected to convey benefits over a period exceeding 10 years, stated that goodwill should be amortized over a period that better reflects the period of benefit. In addition, other stakeholders suggested an amortization of 15 years to better align with tax reporting.

Some stakeholders indicated that the Board should prescribe a default period but also provide an option to justify an amortization period that is different (shorter or longer) from the default period. They noted that this method may provide a cost-effective alternative for those entities that are comfortable with the default period, while providing those that are not with the flexibility to communicate their expectations about the relevant period. Opponents noted that allowing optional departures from a default period could result in significant nonuniformity of amortization periods.

Some stakeholders opposed a default period for a variety of reasons. Some mentioned that PBE stakeholders would benefit from an amortization period that attempts to convey some information about the expected period of benefit. That specific information about the amortization period may be of more importance to equity investors (which are more prevalent with PBEs) as compared with creditors (which are more prevalent with non-PBEs). In addition, equity investors in PBEs have less access to management than equity investors in private entities and consequently rely on the information conveyed in general purpose financial reports to a greater extent. PBEs also are subject to U.S. Securities and Exchange Commission (SEC) regulations that limit the disclosure of nonpublic information, which may heighten equity investors' desire for more information in public financial statements.

The Board could consider a different approach that would provide more management judgment. Some stakeholders indicated that amortizing goodwill over the expected life of the synergies acquired in a business combination would be more informative because it would better reflect the timing of the benefit derived from a business combination. However, some users expressed concern about the subjectivity of this approach and noted that it would not produce meaningful information in many cases. Auditability also is a potential issue. Because of the limited informational benefit and potential cost and complexity for preparers and practitioners, many stakeholders questioned whether the benefits of this approach justify the costs.

The *useful life* of an asset, per the Master Glossary of the Codification, is "the period over which an asset is expected to contribute directly or indirectly to future cash flows." An amortization approach that is based on some aspect of the lives of the identifiable assets acquired (for example, life of the primary identifiable asset acquired) may be a less costly proxy for the period that the acquired business is expected to generate future cash flow. Examples include an amortization period based on the weighted-average useful life of the identifiable asset(s) acquired, the primary asset acquired in the business combination, the useful life of acquired processes, and the period over which the cash flows generated by the acquisition are expected to be realized. This assumes that the period of benefit is generally directionally associated with the useful life of the assets acquired. That is, if the assets acquired in a business combination have shorter (or longer) useful lives, the period over which the acquired business is expected to generate future cash flow is more likely to be shorter (or longer). As with any asset, the period of amortization generally ignores the subsequent reinvestment in that asset.

This approach could be more verifiable because entities presumably have documented and consistent processes and controls for determining the useful lives of definite-lived assets. However, some users indicated that amortization based on the life of the assets acquired may not indicate the period over which the benefits of the business combination are expected to be realized. If so, that amortization period would convey limited useful information. Moreover, the Board would need to consider the treatment of identifiable assets with indeterminate lives acquired in a business combination. Therefore, it is unclear whether attempts to infuse more information content into the amortization period would justify the cost.

These alternative views lead to the following questions for respondents related to amortization period:

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).

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.*
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.*

Section 1—Approach 2: Modifying the Goodwill Impairment Test

The Board could address the assumed cost-benefit issue with the subsequent accounting for goodwill through additional modification of the goodwill impairment test. The objective of this approach would be to reduce the cost of the subsequent accounting for goodwill without significantly reducing the usefulness of financial reporting information for users.

To date, the Board has issued two Updates that aim to reduce cost for PBEs by simplifying the goodwill impairment test. Update 2011-08 offers an optional screen (referred to as "Step 0") that allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An entity needs to proceed with the quantitative goodwill impairment test only if, on the basis of its qualitative assessment, it determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments in Update 2011-08 are intended to reduce cost by lessening the need to perform a quantitative goodwill impairment test when it is clear that an impairment loss is unlikely. The staff received feedback, however, that some entities do not experience significant cost savings as a result of the amendments in this Update because, in some cases, justifying the qualitative assessment to their auditors can be more costly than performing the quantitative impairment test, especially when market or exit prices are volatile.

Update 2017-04 removes Step 2 of the goodwill impairment test. Step 2 involves estimating the implied fair value of goodwill, which requires that an entity allocate the estimated fair value of a reporting unit to individual assets and liabilities within the reporting unit. The amendments in this Update require that an entity perform only Step 1 of the goodwill impairment test, which compares the fair value of a reporting unit with its carrying value, including goodwill. Fair value of a reporting unit can be determined with multiple methods, such as the market, income, or asset approach. An entity will recognize a goodwill impairment loss equal to the amount by which the carrying amount of a reporting unit exceeds its fair value. The amount of impairment is capped at the amount of goodwill.

One study finds that 8 of the 10 entities with the largest goodwill impairments in 2017 early adopted the amendments in Update 2017-04 (Duff and Phelps, 2017), and stakeholders indicated that some entities realized cost savings as a result. The Board has not received feedback on the effect, if any, on the usefulness of the resulting information for users, the Board will continue to monitor the effectiveness of the amendments in Update 2017-04 to understand whether the Update has significantly reduced costs for entities without significantly reducing the usefulness of financial reporting information for users.

The following are questions related to relatively recent amendments:

7. *Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2017-04 reduce the usefulness of financial reporting information for users? Please explain.*
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.*

Despite the issuance of Updates 2011-08 and 2017-04, the Board continues to receive feedback from stakeholders that the cost of the impairment model is not justified by its perceived benefits. Therefore, the Board could consider additional amendments to the goodwill impairment model to further address the costs and benefits of the subsequent accounting for goodwill.

One alternative would be to remove the requirement to assess goodwill at least annually and only require that an entity assess goodwill for impairment following an event or change in circumstances that indicates goodwill may be impaired (that is, following a “triggering event”). Removing the requirement to assess goodwill for impairment at least annually may require that an entity add internal controls to identify triggering events if they are not already in place. Nevertheless, assessing goodwill for impairment solely upon a triggering event could result in the delayed recognition of goodwill impairment as compared with the requirement to assess goodwill at least annually. Some stakeholders suggested that removing the requirement to assess goodwill for impairment at least annually would be appropriate only if coupled with goodwill amortization because amortization likely would reduce the need to impair goodwill.

The private company accounting alternatives under the amendments in Update 2014-02 allow impairment testing at the entity level or at the reporting unit level, if an entity elects to amortize goodwill. Some PBE stakeholders support extending this alternative to PBEs, while other stakeholders do not. Those stakeholders who oppose allowing PBEs to undertake impairment testing at the entity level explained that doing so may allow increases in the goodwill of some reporting units to mask goodwill impairments in other reporting units, which would delay recognition of goodwill impairments. Generally, investors also are opposed to this approach for PBEs.

Stakeholders' mixed views lead to the following questions for respondents:

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.*

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.*

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

In summary, there are several alternative paths that the Board could consider at this juncture. If there is no perceived cost-benefit issue, the Board could retain the existing impairment-only model. If there is a perceived cost-benefit issue, the Board could retain the impairment model and attempt additional changes. Alternatively, the Board could move to an amortization-only model or an amortization-plus-impairment model, with or without additional simplification of the impairment model.

The following question seeks stakeholders' feedback on the various alternative paths:

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

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

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

Statement 141 introduced the requirement to recognize certain intangible items separately from goodwill. Separate recognition is required for items meeting either the contractual-legal criterion or the separability criterion. The implementation guidance in Topic 805 provides an illustrative list of intangible items required to be recognized as individual intangible assets as a result of applying those criteria. Noncompete agreements and certain customer-related intangible assets are among the items listed.

The Board's decision to separately recognize certain intangible items separately from goodwill was related, in part, to its decision to cease amortizing goodwill. Paragraph B150 of Statement 141's basis for conclusions states that "second, for several Board members, having explicit criteria that determine whether an acquired intangible asset should be recognized apart from goodwill was important to their decision that goodwill is an indefinite-lived asset that should no longer be amortized." The basis for conclusions does not, however, provide an analysis of whether the specific identified intangible items listed meet the asset definition in FASB Concepts Statement No. 6, *Elements of Financial Statements*. Thus, although the discussion that follows refers to intangible items recognized separately from goodwill as "recognized intangible assets," this should not be read to infer that all such items meet the conceptual definition of assets.

Statement 141 was issued in 2001. At that time, the Board noted that intangible items were an increasingly important economic resource for many entities and represented an increasing proportion of the assets acquired in business combinations. This trend has continued. In 2017, the median allocation of purchase consideration to recognized intangible assets not including goodwill was 35 percent for public companies (Houlihan Lokey, 2018, "2017 Purchase Price Allocation Study").

Nevertheless, in recent years, private company stakeholders provided feedback that the benefit of separately identifying certain intangible assets does not justify the cost. As a result of this feedback and additional research, the Board issued Update 2014-18, which allows private companies to subsume the following intangible assets into goodwill *if the company also elects to amortize goodwill*:

a. Customer-related intangible assets not capable of being sold or licensed independently from the other assets of the business (CRIs)
b. All noncompete agreements (NCAs).

Some public company preparers stated that CRIs should be recognized separately from goodwill, particularly in certain industries. Similarly, some equity investors indicated that they prefer to analyze certain intangible assets separately from goodwill. In contrast, some lenders indicated that they ignore many recognized intangible assets and goodwill in lending decisions. Accordingly, separate recognition of certain intangible assets may be less important for the users of private company financial statements, many of whom are lenders.

Nevertheless, some equity investors indicated that they also ignore certain recognized intangible assets, particularly when an asset's measurement is perceived to be too subjective and its realization is economically inseparable from the entity, no different from goodwill. Some users also indicated that subsuming certain recognized intangible assets into goodwill, which is then amortized, would lead to modest adjustments to their financial models. Some users expressed interest in information about the agreements giving rise to recognized intangible assets rather than the measurement estimates. Those users would prefer greater disclosure to help assess the potential effect of business combinations on revenues, prospects for growth, and future cash flow. Some preparers also expressed concern about the subjectivity and reliability of the measurement of certain recognized intangible assets and noted that the benefit of the information does not justify the cost of separate recognition.

Moreover, some equity investors and many lenders explained that separate recognition of CRIs and NCAs, which are incapable of generating cash flows independent from a business, is not decision useful. They noted that CRIs and NCAs are like other items appropriately included in goodwill (for example, an assembled workforce). Intangible assets that are legally protected and capable of generating cash flows independent of a business are more relevant to their analyses. For those users, subsuming certain recognized intangible assets into goodwill may not reduce the usefulness of reported financial information.

This dichotomy in views leads to the following questions for respondents related to costs and benefits:

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

Assuming that a cost-benefit issue exists with the requirement to separate certain intangible assets from goodwill, the Board could consider changes to simplify the guidance, improve disclosures, or both. To gather information on potential solutions, stakeholders are asked to consider the following broad approaches.

Section 2—Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill

The Board could consider extending to PBEs the private company alternative (issued in Update 2014-18) to subsume certain CRIs not capable of being sold or licensed separately and all NCAs into goodwill if goodwill is amortized. Under the private company alternative, some CRIs continue to be separately recognized, such as mortgage servicing rights, commodity supply contracts, and core deposits.

On a separate note, in February 2019, the Board issued an Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805,* in connection with a different project. That ITC describes other specific issues related to the CRIs being considered for separate recognition.

Section 2—Approach 2: Apply a Principles-Based Criterion for Intangible Assets

In past research, the staff considered a principles-based criterion that entities would apply to determine which intangible items to subsume into goodwill. For example, all intangible items would be subsumed into goodwill except those that are capable of generating cash flows independent of a business (for example, capable of being sold or licensed). Investors explained that intangible assets with those characteristics tend to be most relevant to their analyses.

When the PCC performed outreach on using a principles-based criterion, many stakeholders noted that certain CRIs and NCAs are the most common intangible items that would be subsumed into goodwill based on the criterion. Therefore, many stakeholders would prefer that the guidance simply identify those specific intangible items as those that could be subsumed into goodwill.

Another example of a principles-based criterion would be using the existing asset definition in Concepts Statement 6 (or a future definition such as the definition currently under consideration in the Conceptual Framework project) to determine whether intangible items meet the definition of an asset before determining whether they should be recognized separately from goodwill using the existing contractual/legal and separability criteria. Concepts Statement 6 currently defines an asset as a probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. This criterion would curtail instances in which an entity recognizes intangible items as assets, which do not meet the definition of an asset. This approach may or may not result in significantly different outcomes from the PCC alternative described earlier.

Section 2—Approach 3: Subsume All Intangible Assets into Goodwill

Under this approach, all intangible assets acquired in a business combination would be subsumed into goodwill and goodwill would be amortized. Some users commented that the measurement of recognized intangible assets acquired in a business combination is less relevant because of the inherent subjectivity of those measurements. Therefore, some stakeholders recommended disclosures such as those discussed in *Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets*. Other users indicated that intangible assets, especially those that are critical to the future success of a business and those that are capable of generating cash flows independent from a business (for example, capable of being sold or licensed), should be separately identified and measured.

This approach also could give rise to certain practical challenges. For example, if all intangible assets were subsumed into goodwill, the Board would need to address the accounting for subsequent sales of subsumed intangible assets. Subsuming certain definite-lived intangible assets into goodwill also may complicate the process for determining the goodwill amortization period. Finally, some stakeholders noted that this approach would fail to provide a faithful representation of assets acquired in a business combination.

With this approach, some stakeholders noted that all identifiable intangible assets should be subsumed into goodwill for a different reason. Under GAAP today, entities that acquire identifiable intangible assets in a business combination recognize those assets at fair value. However, if an entity develops similar intangible assets internally, those assets may not be recognized. The staff has commonly heard that this perceived inconsistency creates an uneven playing field that disadvantages entities that grow organically, as opposed to those that grow through acquisition. These stakeholders indicated that accounting for intangible assets should be consistent among entities whether they acquire intangible assets or create them internally. For additional details, see *Section 4: Comparability and Scope.*

Section 2—Approach 4: Do Not Amend the Existing Guidance

Some stakeholders support the status quo. They noted that, increasingly, value is driven for many entities and the economy by intangible items. Those stakeholders argued that intangible items are an important predictor of future performance and that separate recognition is necessary to preserve decision-useful information. This is particularly true in certain industries. For example, CRIs can be significant drivers of future performance in industries such as defense and pharmaceuticals because contracts with those customers are long lived and difficult to obtain. Stakeholders also noted that intangible assets represent an increasing proportion of the acquisition price in a business combination. In some cases, substantially all of the purchase price is attributed to intangible assets (Houlihan Lokey, 2018, “2017 Purchase Price Allocation Study”). Thus, the separate recognition of identifiable intangible assets is necessary to faithfully represent what is acquired in a business combination.

Users of public company financial statements noted that they do not have the same access to management as private company investors. Thus, they rely on information conveyed in general purpose financial reports about recognized intangible assets to a greater extent than private company financial statement users do.

Some stakeholders also questioned the significance of cost savings that would accrue from amending the existing guidance. Regardless of the financial reporting requirements, some entities would still estimate the value of certain intangible items acquired in a business combination. In that case, external valuation professionals and auditors would still be involved, which would limit the cost savings.

These varied viewpoints lead to the following questions for respondents related to potential approaches intended to address the cost-benefit considerations of the guidance:

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.*

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.*

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.*

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

This ITC also is seeking feedback on whether and how disclosures about goodwill and recognized intangible assets might be improved. Users indicated interest in additional disclosures about goodwill (Approach 1) and recognized intangible assets (Approach 2). The International Accounting Standards Board (IASB) also is considering additional disclosures in this area.

Under Topic 805, an entity is required to disclose the following in the period of the business combination:

a. A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition, or other factors
b. The total amount of goodwill that is expected to be deductible for tax purposes

c. If the acquirer is required to disclose segment information in accordance with Subtopic 280-10, Segment Reporting—Overall, the amount of goodwill by reportable segment or a statement that the assignment of goodwill to reporting units is not complete. Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill, provides the disclosure requirements for periods after a business combination. For each reporting period for which a statement of financial position is presented, an entity is required to disclose changes in the carrying amount of goodwill and certain reasons for changes (for example, newly acquired goodwill, impairment losses, and adjustments related to the subsequent recognition of deferred tax assets). In addition, for each goodwill impairment loss recognized, an entity must describe the facts and circumstances leading to the impairment, the amount of the loss, and the method of determining the fair value of the reporting unit.

Private companies that elect the private company accounting alternatives are required to disclose certain details about goodwill amortization. For a complete list of the required disclosures, see paragraphs 805-30-50-1 through 50-4 and 350-20-50-1 through 50-7 in the *FASB Accounting Standards Codification*®.

Section 3—Approach 1: Additional Disclosures about Goodwill

At present, an entity is required to provide a qualitative description of the factors that make up the goodwill recognized. Some users stated that this disclosure could be enhanced, particularly by including more quantitative information, for example, including the key performance assumptions or key performance targets supporting the acquisition and performance against those targets for several years following the acquisition. Some users mentioned that those details would provide more explicit justification of the consideration paid, which would allow users to better understand the reasons for the purchase. In addition, that data would be useful in forecasting and assessing future results.

Disclosing this information would require that an entity track an acquisition's performance against management-designated targets for several years. This could inject additional cost. For example, an entity may incur additional costs to prepare and audit the information and to implement necessary internal controls. Tracking this information also could be complex. For example, if an acquired entity is integrated into existing operations, separately tracking the performance of the acquired business may be extremely difficult, if not impossible. Furthermore, the link between the acquisition price and the quantitative measures required to be disclosed may be indirect and offer limited useful information.

To some degree, disclosing this type of forward-looking information, which enables investors to see the company through the eyes of management, may overlap with the SEC's current requirements on Management's Discussion and Analysis (MD&A). In addition, companies are currently protected from liability under securities law through SEC's "Reform Act," issued in 1995, which encourages public companies to make forward-looking statements under the SEC's safe harbor provisions. Such protection would not be available for disclosures within the GAAP financial statements themselves. Given these considerations, this ITC is seeking input to help identify on other, operable ideas for new or enhanced disclosures.

At present, an entity is required to describe the facts and circumstances resulting in a goodwill impairment loss. Initial feedback received from some investors indicates that early notification of changes in facts and circumstances that could lead to a future goodwill impairment loss could provide more timely information. For example, entities could be required to disclose the facts and circumstances that led to a goodwill impairment test, which did not result in a goodwill impairment loss. Some users noted that this type of disclosure would be most valuable when combined with the quantitative information described above.

This type of disclosure could require an entity to disclose information about a potential future impairment that may or may not occur, however. In addition, it may or may not be incremental to information available from other sources outside of the financial statements (e.g., the SEC's guidance regarding Management's Discussion and Analysis and forward-looking statements). Finally, to the extent that the disclosure incorporates future information, it may be outside the disclosures suggested by the Board's disclosure framework.

The following questions seek stakeholders' feedback on additional disclosures on goodwill:

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?*

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

Section 3—Approach 2: Additional Disclosures about Intangible Assets

Topic 805 requires that an entity disclose in the period of acquisition a qualitative description of intangible items that do not qualify for separate recognition as intangible assets.

Topic 350 requires that an entity disclose in the period of acquisition the amount of recognized intangible assets and the weighted-average amortization period for recognized intangible assets in total and by major asset class. In subsequent periods, an entity must disclose the gross carrying amount of recognized intangible assets, accumulated amortization, and aggregate amortization expense for the period. An entity also is required to disclose the facts and circumstances leading to the impairment of a recognized intangible asset, the amount of the loss, and the method for determining fair value.

Some users indicated that they ignore measures of certain recognized intangible assets, particularly when the measure is perceived to be too subjective. Instead of separate recognition of those intangible items (for example, NCAs and CRIs), users expressed interest in greater quantitative and qualitative information about the underlying agreements.

Investors and other stakeholders often are interested in assessing company value. Company value is highly driven by intangible items, especially in a service-based and technology-focused economy. In 2001, the SEC issued Special Report, "Strengthening Financial Markets: Do Investors Have the Information They Need?" (Garten, 2001 Special Report), which considered what business organizations, corporate management, and standard setters can do to improve entity disclosures to help users better assess the value of dynamic, high-growth companies. The report recommended that the SEC create a framework for voluntary supplemental disclosures on intangible assets and operating performance measures that would enable investors to better assess future performance. The report noted that relevant disclosures could be company specific and vary greatly by industry; therefore, voluntary disclosures were favored over prescriptive disclosures. Additionally, the report recommended that the federal government "create an environment that encourages innovative disclosures by companies by reducing the risks associated with such disclosures" (Garten, 2001 Special Report).

The following questions seek stakeholders' feedback on additional disclosures on intangible assets:

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.*

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.*

Section 4: Comparability and Scope

Since the issuance of Updates 2014-02, 2014-18, and 2019-06 for private companies and not-for-profit entities, PBEs today are the only entity type without accounting alternatives on this topic. This poses related issues around comparability.

If no amendments to generally accepted accounting principles (GAAP) are ultimately proposed for PBEs, financial reporting by PBEs and those private business entities and not-for-profit entities that elect to subsume certain recognized intangible assets into goodwill and/or amortize goodwill will continue to be noncomparable. This could create an issue for nonpublic entities that plan to become a PBE or are acquired by a PBE. Comparability also could become an issue in certain industries, for example, in the health care sector, which includes PBEs, private business entities, and not-for-profit entities.

If amendments to GAAP are proposed for PBEs that require PBEs to subsume certain recognized intangible assets into goodwill and/or amortize goodwill, financial reporting by PBEs and those private business entities and not-for-profit entities that do not elect the option to subsume certain recognized intangible assets into goodwill and/or amortize goodwill will be noncomparable. This source of noncomparability could be addressed by extending the same requirement to private business entities and not-for-profit entities. If a requirement other than the private company accounting alternatives is issued, there would be a double transition for entities that already adopted those amendments.

If amendments to GAAP are proposed for PBEs that provide an option to subsume certain recognized intangible assets into goodwill and/or amortize goodwill, financial reporting by PBEs that do not elect the option and those PBEs, private business entities, and not-for-profit entities that do elect the option will be noncomparable.

In addition, if amendments to GAAP are proposed for PBEs that result in some or all PBEs subsuming certain recognized intangible assets into goodwill and/or amortizing goodwill, financial reporting by PBEs following GAAP and those reporting under IFRS Standards will be more noncomparable. At present, IFRS Standards apply a similar, albeit not identical goodwill impairment model to GAAP and do not subsume recognized intangible assets into goodwill. A project reexamining goodwill is currently on the IASB's agenda, however, and the IASB expects to issue a Discussion Paper.

Given the noncomparability issues that exist currently or would affect the scope of a potential project, respondents are asked to provide input on the following questions:

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.*

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).*

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.*

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.*

OTHER TOPICS FOR CONSIDERATION

What This ITC Does Not Consider and Why

The Conceptual Basis for the Recognition and Measurement of Goodwill and Certain Recognized Intangible Assets

The objective of this ITC is to gather additional information about the costs and benefits of the accounting for goodwill and certain recognized intangible assets, not to explore the conceptual underpinnings of the recognition and measurement of those items. This focus is adopted for several reasons. First, the Board is aware of and understands the conceptual debate on what goodwill represents and whether goodwill and certain recognized intangible assets meet the conceptual definition of an asset. Second, the conceptual framework currently excludes measurement principles and consequently provides no basis for a conceptual debate on measurement of goodwill and certain recognized intangible assets. The staff believes that collecting additional input on these issues would be ineffective.

The Immediate Writeoff of Goodwill

Past projects on the subsequent accounting for goodwill have considered the immediate writeoff of goodwill via a charge to earnings or equity on the acquisition date. Some stakeholders support this method of accounting because it eliminates concerns about the cost of subsequent accounting for goodwill and they question the decision usefulness of information about goodwill (regardless of method). However, other stakeholders explained that the immediate writeoff of goodwill fails to provide a faithful representation of the economic investment in the acquired business and hinders users' ability to assess the return on invested capital and hold management accountable for poor capital allocation decisions. Other stakeholders indicated that the immediate writeoff of goodwill may result in some entities' inability to pay dividends because of certain state laws governing when an entity can make dividend payments. Given that the weight of this past feedback has been significantly more negative than positive, this ITC does not consider an alternative to write off goodwill on the date of an acquisition.

Interaction with Other Areas and Topics

The intent and scope of this ITC are to seek feedback on intangible assets and the subsequent accounting for goodwill. However, there are possible interactions with other areas and Topics that may have to be revisited, including:

a. Section 360-10-15, Property, Plant, and Equipment—Overall—Scope and Scope Exceptions (Impairment or Disposal of Long-lived Asset Subsection)
b. Topic 740, Income Taxes
c. Topic 830, Foreign Currency Matters
d. Equity method goodwill
e. Differences between business combination and asset acquisition accounting.

Other Standard Setters (IASB and Accounting Standards Board of Japan [ASBJ])

For the subsequent measurement of goodwill, IFRS Standards currently require that an entity test cash-generating units (CGU) for impairment at least annually by comparing the recoverable amount of the CGU with the carrying amount. If the carrying amount exceeds the recoverable amount, an entity recognizes the excess as an impairment loss. Reversal of impairment losses is generally required under IFRS Standards, but reversal of goodwill impairment losses is prohibited. Although some stakeholders view the IASB's goodwill impairment test as similar to the current GAAP goodwill impairment test, there are notable differences in the guidance and in practice. For example, the unit at which goodwill is tested, the value-in-use versus fair value measurement methodology, the notion of recoverable amount, and the allowance for impairment loss reversals (other than goodwill) are different.

In relation to small and medium-sized entities (SMEs), the IASB's *International Financial Reporting Standard for Small-and Medium-Sized Entities* requires SMEs applying that Standard to amortize goodwill and other indefinite-lived intangible assets over their estimated useful lives. The basis for conclusions on the IFRS Standard for SMEs stated that the IASB introduced that amortization requirement for cost-benefit reasons rather than conceptual reasons. If an SME cannot estimate the useful life reliably, the maximum amortization period is 10 years. The Standard requires that SMEs amortize goodwill using a systematic basis that reflects the expected pattern of consumption, or if that pattern is not determinable reliably, using the straight-line method. Annually, SMEs must perform a qualitative impairment test and perform an impairment test if there is an indication of impairment.

Since 2016, the ASBJ has required that an entity amortize goodwill on a systematic basis over its useful life, not to exceed 20 years, using the straight-line method or another reasonable method. The ASBJ introduced goodwill amortization to show an entity's profit after a business combination, net of cost invested. Starting in 2015, the ASBJ and the Financial Accounting Standards Foundation, a private sector body in Japan, published a series of papers[1] summarizing the research that led to modifying the accounting for goodwill. However, entities following Japan's Modified International Standards still conduct the annual goodwill impairment test required by IFRS Standards.

In relation to intangible assets acquired in a business combination, IFRS Standards require them to be recognized separately from goodwill if they are identifiable—that is, if they are separable (capable of being separated and sold) or arise from contractual or other legal rights.

While the ASBJ modified its accounting standards to introduce goodwill amortization, the ASBJ follows IFRS Standards when accounting for intangible assets.

The IASB intends to issue a Discussion Paper that is expected to discuss whether the IASB should develop proposals to introduce new disclosure requirements that would enable investors to assess the objectives and subsequent performance of business combinations, improve the impairment test by refining the calculation of value in use, and/or provide relief from the annual goodwill quantitative impairment test requirement. The IASB's preliminary view is not to reintroduce amortization of

[1]Research Paper No. 1, "Research on Amortisation of Goodwill," Research Paper No. 2, "Quantitative Study on Goodwill and Impairment," and Research Paper No. 3, "Analyst Views on Financial Information Regarding Goodwill."

goodwill, and subsuming identifiable intangible assets into goodwill is currently not being considered. The ASBJ stated that it is closely monitoring both the FASB's and the IASB's projects.

Considerations When Accounting for Nondeductible Goodwill

GAAP requires that an acquirer recognize deferred taxes for temporary differences related to assets acquired and liabilities assumed in a business combination. GAAP also requires that an entity recognize a deferred tax asset when the tax basis of goodwill exceeds the book basis of goodwill. However, Topic 805 prohibits an entity from recognizing a deferred tax liability for the excess of the book basis of goodwill over the amount of goodwill that will be deductible for tax purposes. When a portion of goodwill is not deductible for tax purposes, any book amortization or impairment related to that portion of goodwill would result in a permanent difference, which affects an entity's effective tax rate. Although an entity's effective tax rate currently is affected by goodwill impairment related to nondeductible goodwill, this effect on the effective tax rate occurs more consistently for private companies that elect to amortize goodwill today and would become more common for public business entities if the Board decides that public business entities could or should amortize goodwill.

Topic 740, Income Taxes, requires that an entity disclose the reasons for the difference between the statutory tax rate and the effective tax rate. Therefore, the effect on the effective tax rate of the permanent difference related to goodwill would be disclosed, if material. However, the staff is interested in receiving feedback about whether the Board should consider amending the guidance that prohibits an entity from recognizing a deferred tax liability when the book basis of goodwill exceeds the tax basis of goodwill because of the effect of subsequent goodwill amortization on an entity's effective tax rate.

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

Next Steps

Your feedback on this ITC will assist the Board with its future decisions. After receiving comments, the FASB will host a formal roundtable to supplement stakeholders' feedback on this topic. If you would like to participate in the roundtable, you must submit a comment letter in response to this ITC and indicate your interest in the following question:

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

APPENDIX: QUESTIONS FOR RESPONDENTS

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

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.

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.

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).

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.

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.

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

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

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.

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.

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.

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

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

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

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.

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.

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

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.

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.

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.

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.

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?

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

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.

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.

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.

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).

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.

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.

Other Topics for Consideration

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

Next Steps

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