Oct. 7, 2019

Financial Accounting Standards Board
Technical Director – File Reference No. 2019-720
401 Merritt 7 – PO Box 5116
Norwalk, CT 06856-5116

Re: Identifiable Intangible Assets and Subsequent Accounting for Goodwill
File Reference No. 2019-720

Dear Board Members and Technical Staff:

Valuation Research Corporation ("VRC") appreciates the opportunity provided by the Financial Accounting Standards Board (the "FASB") to respond to the Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill (the "ITC"), File Reference No. 2019-720.

VRC’s response to the questions raised in the ITC follows.

VRC has a unique position as a user of financial statements and as a service provider working with preparers of financial statements. Throughout the comment period, VRC conducted a confidential survey of financial statement preparers and held numerous discussions with clients and others in the market in order to gain their perspective, and incorporated the results of the survey and discussions into our responses. Thus, we believe that our responses offer a representative market sample of the views of both preparers and users of financial statements in regard to the current accounting for goodwill and intangible assets for public companies.

We welcome further discussion and questions from the FASB related to the matters addressed in the ITC and VRC’s response. Please contact PJ Patel, CFA, Co-CEO at (609) 243-7030 or PPatel@ValuationResearch.com.

Sincerely,

/s/ PJ Patel

PJ Patel, CFA
Co-CEO and Senior Managing Director
Valuation Research Corporation
FASB Invitation to Comment, File Reference No. 2019-720

Respondent Identifier/Contact Information:
Organization: Valuation Research Corporation
Entity type: Professional, Independent Valuation Services Provider
Ticker: N/A

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

Goodwill represents future assets, unrecognized assets (i.e., workforce), and other values not assigned to identified tangible or intangible assets, including going concern/assemblage value, buyer-specific synergies, and overpayment (e.g., future customer relationships, next-generation technology.) It is reflected in transactions by a premium (over net tangible and identified intangible assets) on the price paid today for benefits to be received in the future and/or reduced risk. The recent IVSC document provides a good summary of the attributes of goodwill.

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.

From the perspective of the users of financial statements (who ultimately bear the costs as claim holders), we would say yes. Goodwill impairments are the single best indicator of an attribute that users and preparers care most about, yet find hardest to assess—the quality and performance of management. In analyzing the results, it helps us answer and consider whether management is creating value with its acquisition strategy. We also note that while costs may be a focus during the current (extended) economic expansion, a transition to amortization could result in a recessionary period obscuring the impact of investment decisions made during this expansionary period, which could ultimately cost users of financial statement much more in the long-run.

The cost/benefit issue raised by the FASB’s ITC has been a key discussion point between VRC and a group of public company CFOs, CAOs, corporate controllers, SEC reporting directors, and others. During this open comment period, VRC has gathered market thoughts and input through conversations and a confidential survey. Approximately half of our survey respondents indicated that the cost of performing goodwill impairment testing exceeds its benefit, while the other half are either unsure or believe that the benefits exceed the costs. One comment that has come through loud and clear, from the nearly 150 responses received, is that accounting departments of many public companies are “maxed out.” In addition to dealing with new lease accounting and revenue recognition standards, there have been so many modifications to accounting for goodwill that companies can’t keep up. Considering this “maxed out” commentary related to revenue recognition and lease accounting, VRC would suggest that the cost outweighs the benefit to financial statement preparers in most
recent rule changes; but everyone needs to also consider the benefit of the accounting rules to the users of financial statements.

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.**

   We prefer impairment testing over amortization. Based on our experience, the costs of performing impairment testing is relatively minimal; rather the audit review of impairment testing is costly. In the majority of situations, the potential for impairment can be easily assessed with a balance sheet and income statement. Amortization of goodwill would introduce an expense to the P&L that would, in most cases, have no relation to the economic benefits provided by goodwill. We would suggest that rather than amortizing goodwill, the rules should allow for a more straightforward trigger-based test to alleviate the burden on management and auditors, which would reduce the inputs, costs, and assumptions required.

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**

      There is no single period that would work for most or all companies. As noted above, goodwill is comprised of many different elements – some short-lived, and others long-lived. Any default period would be incorrect, would not be applicable for all companies, and would be economically misleading to users of financial statements.

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

      One hundred (100) years – diversification, risk reduction, etc. can have an extremely long, if not indefinite, life. Think Facebook with its acquisitions of Instagram and WhatsApp. Three to 40 years may seem reasonable from a present value perspective; however, if you are purely looking at the time period over which the benefit accrues, it may be extremely long, maybe infinite.

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

      Similar to the above response, there is no single period (even a minimum period) that would work for most or all companies or that would be economically meaningful to users of financial statements (e.g., two to five years for non-competes, 15+ years for trademarks.)
d. Justification of an alternative amortization period other than a default period

Every business is different. Every deal is different. There are elements of goodwill that are more closely aligned with shorter-term assets (e.g., buyer-specific synergies to be recognized post-acquisition.) Other aspects of goodwill are more long-term oriented (e.g., value arising from future customer relationships) and often indefinite-lived (e.g., going concern value, certain synergies.)

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

Similar to the above responses, different assets have different characteristics, and it would be economically misleading to investors to assign a life to goodwill based on the characteristics of another asset. It is unusual for all the goodwill in a transaction to tie to the most important asset.

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

Similar to the above responses, different assets have different characteristics, and it would be economically misleading to investors to assign a life to goodwill based on the characteristics of another asset or group of assets.

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).

This approach would enable businesses to amortize goodwill over a period that is based on facts and circumstances; however, this requires judgment, is subjective, and could result in significant diversity in practice. This would present issues in audit review. How would the estimate be audited? This could also impact the users’ ability to analyze and compare companies within an industry. Additionally, while goodwill could reasonable be disaggregated into its constituent elements, many of these elements relate to future assets and would not have any economic basis for amortization at the acquisition date (i.e., assets that are in a pattern of value accumulation would, in effect, be amortizing.)

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.

No, our views on amortization versus impairment are not based on the amortization method or period, as we believe that impairment testing is the best way to provide meaningful information. Amortization of goodwill would, in most cases, not properly align with the economic benefits offered by goodwill, as this pattern is not linear over time, which in many/most cases can be significantly long-lived or indefinite (not wasting) in nature.
Amortization would not provide more meaningful information to users of financial statements.

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.

The amortization period, if objectively determined to the extent possible, may have some benefit in understanding management’s viewpoints on the nature of goodwill, its attributes, and thus its life. However, in our experience in interacting with companies during the acquisition process, the range of judgment in these types of matters can be significant and biased, and thus not result in any economically meaningful information. Therefore, we believe the costs to the investor in terms of reduced information quality and management accountability would outweigh any reduced operational or other financial costs to the company; and the net impact on investors/users of financial statements would be negative. The most objective way to provide decision-useful information to investors is through goodwill impairment testing.

Additionally, in recent months at an Appraisal Issues Task Force (AITF) meeting, the group made a point that through the amortization of goodwill that smaller sized public companies whose primary asset is goodwill could risk delisting as a result of amortization.

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.

Yes. 2017-04 reduces the costs of performing goodwill impairment testing, both internal and external.

No. 2017-04 does not reduce the quality of information. The carrying value of goodwill is not necessarily recorded at fair value after an impairment; however, the balance between cost and benefit is reasonable.

Having worked on numerous goodwill impairment projects, we believe it would be helpful to share additional thoughts. When a public company records a goodwill impairment charge, there is significant scrutiny internally from the CEO, CFO, and others. It is usually another piece of negative information to stakeholders that follows weeks or months of previously communicated negative news/results. Frequently, the amount of the impairment will not be fully determinable under the two-step impairment model until moments before the earnings release, and as such, puts tremendous pressure on all involved parties. With the introduction of 2017-04 and elimination of Step 2, companies can very quickly agree on the impairment amount, the controller’s group can work through the accounting implications, and the CEO,
CFO, and others can move on to other areas. Also, it is our view that rather than focusing on goodwill impairment, similar to the IASB discussion, this should be used as a general method to determine a long-lived asset impairment within a reporting unit or possibly an operating segment.

Furthermore, we believe that current goodwill impairment testing is another tool that requires management to be accountable to both its debt and equity stakeholders. As in the Kraft Heinz transaction, current testing forces management to answer tough questions about when and where things went wrong in the acquisition strategy. Without the testing results, we believe that investors may not have understood the magnitude of the results. Considering continued increases in M&A activity, this data is vital to analyzing companies.

“The impairment to Kraft Heinz's goodwill and intangible assets reflected revised profitability expectations for the company's Kraft cheese and Oscar Mayer cold-cuts businesses, its Canadian retail business, as well as weaker business performance over the past six months, David Knopf, the company's finance chief, said during a company earnings call on Thursday.” Source: Shumsky, Tatyana (2019, Feb. 9), Kraft Heinz's Goodwill Charge Tops Consumer-Staples Record, Retrieved from wsj.com

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.

No. Update 2011-08, also known as Step 0, has not helped reduce cost. Preparers and reviewers are quantitatively inclined, and writing responses, which may be viewed subjectively today or in the future, is not quick or easy. Additionally, we have heard directly from audit firms and clients that auditing a qualitative assessment can be more challenging than auditing a quantitative analysis. We would suggest a simple but quantitative principles-based approach rather than responding to a list of items. A simple carrying value to EBITDA ratio could be extremely effective in the identification of impairment issues and/or the need for more robust quantitative testing.

No, the amendments in 2011-08 do not reduce the usefulness of information, because when a goodwill impairment may be present, a Step 1 analysis is still required.

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.

We strongly oppose the removal of the requirement to assess/test goodwill for impairment. Based on our experience in working on thousands of deals with public and private companies, their controllers, CFOs, and deal teams, we can say with certainty that impairment testing provides discipline to the deal-making process. The potential for impairment is similar to a flashing red light on the horizon or a health warning on a pack of

The impairment to Kraft Heinz's goodwill and intangible assets reflected revised profitability expectations for the company's Kraft cheese and Oscar Mayer cold-cuts businesses, its Canadian retail business, as well as weaker business performance over the past six months, David Knopf, the company's finance chief, said during a company earnings call on Thursday.” Source: Shumsky, Tatyana (2019, Feb. 9), Kraft Heinz’s Goodwill Charge Tops Consumer-Staples Record, Retrieved from wsj.com
cigarettes. We work with companies at various phases of the transaction process – at the time that deals are undertaken, not only post-transaction with purchase price allocations and impairment testing, and also pre-deal as they are thinking about the implications of the transaction. Impairment testing protects investors by adding a post transaction hurdle that must be considered through the deal-making process.

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.

This is a difficult question to answer. There are some aspects of goodwill – like risk reduction, diversification, and growth – that are beneficial to the entity. There are others, like workforce or assemblage value that are beneficial to the segment, reporting unit, or lower level. Balancing these items, we think testing at the segment level would be appropriate in some instances, especially for entities that lack adequate financial information or forecasts at the reporting unit level.

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

Based on our experience in working with public companies on thousands of transactions, we believe the following changes would be helpful to reduce costs and increase benefits:

1. Change testing from the reporting unit level to the segment level
2. Reduce the threshold for testing, i.e., a trigger-based approach rather than Step 0 or Step 1 as the first screen. This would allow the testing to be completed using a simple metric – say carrying value to EBITDA. Also, the pain/cost of impairment testing is not in the base valuation, but it is the internal costs and extenuating calculations, such as calculating the tax attributes of a hypothetical transaction (EITF 02-13). Limiting the extremely subjective aspects of the calculation would reduce/remove most of the burden.

Instead of testing for goodwill impairment, change the testing to asset impairment, and as such ASC 360 will no longer be needed. There would also no longer be the need to test indefinite-lived trademarks for impairment on their own. They would be tested as part of the reporting unit or operating segment. If an impairment exists, management can determine the affected assets, based on the difference between fair value and carrying value.
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.

<table>
<thead>
<tr>
<th></th>
<th>Do You Support the Indicated Model? Yes/No</th>
<th>Do You Support Requiring an Impairment Assessment Only upon a Triggering Event? Yes/No</th>
<th>Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit? Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment Only</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Amortization with Impairment</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Amortization Only</td>
<td>No</td>
<td>Not applicable</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

The basic principles above include the following:
- Goodwill is almost always an accumulating asset, and seldom a wasting asset (unless unexpected/negative results lead to a reduction in goodwill value.) Amortization does not provide meaningful, useful, or applicable information to users of financial statements.

Reporting units are, in many cases, not an ideal testing level for goodwill impairment, as companies often do not report at or operate in that way. We have observed convergence to the segment level over time, in line with the disclosure of financial results to the investing public. Our suggestion is to perform goodwill impairment testing at the segment level, consistent with how businesses operate and manage, and balance the need for entity-level information and acquisition-related detail.
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, non-compete 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.

The cost savings of subsuming certain assets, such as non-compete agreements and customer relationships, into goodwill would be minimal as the incremental cost to value an additional asset or two is limited. The detail provided on currently identified assets provides users of financial statements with meaningful information on goodwill given the limited (2-5 year) useful life of most non-compete agreements.

Based on VRC’s survey and outreach to public companies, companies are largely comfortable (80%+) with the current approach to identifying and valuing intangible assets.

14. Please describe what, if any, decision-useful information would be lost if certain recognized intangible assets (for example, non-compete 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.

Knowing the value of individual identified intangible assets such as non-competes and customer relationship assets is useful in understanding the attributes and intentions of a transaction, risks, growth, and other characteristics. These assets represent both contractual arrangements and forward indicators of what is present and their relative magnitude to the business. While it would be more helpful to have this level of information for all of the company’s assets, both acquired and developed organically, understanding the range and balance of assets in a transaction gives investors meaningful insight into not only the acquisition but also the acquiring company’s goals and required areas of reinvestment necessary for growth.

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

Today, the valuation of intangible assets (including non-compete agreements and customer-related intangible assets) is very reliable. The valuation industry has invested substantial time and effort into the framework of best practices around the valuation of these assets, which has reduced the diversity of practice (e.g., see valuation advisories published by the Appraisal Foundation and AICPA, and ongoing development of the Mandatory Performance Framework / CEIV credential.)
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.

Trademarks and technology assets are frequently bought, sold, and licensed. They are marketable assets, often more than many items on a company’s balance sheet. We often see acquisitions of single intangibles. This is evident when considering transactions gathered in databases such as RoyaltySource, ktMine, or Markables, as well as groups of intangibles that do not meet the criteria for a Business under ASC 805. For example, in the life sciences industry, technology assets (i.e., patents, IPR&D, etc.) are sold quite frequently. Customer-related assets are often included as a component of these acquisitions as well (trademark or technology sold with certain customer contracts associated with it.) Additionally, customer contracts are frequently bought and sold separately from other assets in specific industries, such as government contractors.

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

   3 – Please see our response to question 14 above. This removes decision-useful information to investors.

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

   2 – As described above, principles-based approaches often require subjectivity that is best supported through a quantitative analysis.

c. Approach 3: Subsume All Intangible Assets into Goodwill

   4 – Please see our response to question 14 above. This removes decision-useful information to investors.

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

   1 – Given the informational benefits associated with allocating purchase price to all identified assets and liabilities, the preferred approach is to value intangible assets that are acquired as part of a business combination.

   It is essential to reiterate the original intents of intangible asset recognition – in an intellectual property and services-based economy, transaction values increasingly reflect...
the value of intangibles such as brands, intellectual property, or contractual customers rather than tangible assets such as that found in manufacturing organizations/factories.

As described previously, considering the benefits associated with allocating purchase price to all assets and liabilities, the preferred approach is to value intangible assets that are acquired as part of a business combination.

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.

Company management understands the key assets acquired and materiality. In some cases, assets such as workforce (government contractor) may be valued. In other instances, transactional customer-related assets will not be material. A principles-based approach could provide useful information, with support from external databases that show the value of assets in different industries.

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.

We disagree as each of these items should be viewed individually. Aggregating material balance sheet items may result in material errors, judgments, and the potential to mislead users of financial statements. Combining the values of accumulating assets (e.g., future customer relationships, in an accumulation phase within goodwill) with amortizing assets (e.g., existing customer relationships) would provide a misleading total expense figure to users of financial statements.

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?

Early informational disclosures by management often arise from the process of impairment testing, and this process should not be minimized. This information is critical to understanding the business and protecting investors. Even if impairment testing is performed without a subsequent impairment charge, the process of testing itself often results in informational benefits to management, which can be conveyed to users of financial statements.
21. What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

None. Additionally, as part of VRC’s outreach, public companies adamantly believe (90%+) that current disclosures are sufficient and the no further disclosures are needed.

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.

As users of financial statements, the incremental benefit of providing additional quantitative and qualitative disclosures would be significant, far outweighing the cost. Again, from a user perspective, this information would be extremely helpful in understanding the acquisition, future expectations, and risk. As noted above, in VRC’s outreach, public companies believe that current disclosures are sufficient and that no further disclosures are needed.

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.

There are no additional changes that we would currently suggest.

Section 4: Comparability and Scope

24. Under current GAAP, to what extent does non-comparability 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.

We do not believe that comparability between these items is a material item today because we are in a mixed model where organically generated intangible assets are not valued. If organically generated intangible assets were valued, consistency between public and private companies would be preferred.

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).

In our opinion, consistency is essential, and the presence of options and constantly changing standards is not preferable; investors/users of financial statements prefer consistency. There is already more than enough variability arising as a result of the new lease accounting standard. Variability in accounting for all entities should be minimized.
26. To what extent does non-comparability 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.

IFRS and US GAAP are not divergent enough in this area to cause a significant issue. In our view, they are similar to two languages that are slightly different, but not more than that. We note that the treatment of operating leases under IFRS and GAAP under the recently-released lease accounting standard has created (specifically concerning operating leases) substantially more material GAAP/IFRS comparability issues than those that arise from the recognition and testing of goodwill and intangibles.

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)

   Important. However, for PBEs and larger private companies, it is most important.

b. Comparability among all PBEs reporting under GAAP

   Extremely important. Users of financial statements appreciate the consistency in analyzing information.

c. Comparability among all private business entities and all not-for-profit entities reporting under GAAP

   Not very important.

d. Comparability among all PBEs reporting under GAAP and PBEs reporting under IFRS.

   Extremely important. Users of financial statements appreciate the consistency in analyzing information. We are in a global economy. As such, the financial reporting should be as consistent as possible to the extent that convergence should be the ultimate goal.
Other Topics for Consideration

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

Goodwill and intangible assets are the most critical assets on a company’s balance sheet today. We at VRC struggle to understand why any information relating to these assets would be taken away from investors. In fact, part of the reason why we believe the current questions are arising on their utility is that we are operating in a mixed model where organically-generated intangible assets are not capitalized. We think that if core intangible assets – trademarks, technology, and contractual customer relationships – were capitalized, there would be even greater use/appreciation for the information that would be provided.

Concerning impairment testing, the need is most evident in economic downturns as experienced during the Great Recession ten to twelve years ago. Economic cycles would indicate that another downturn could hit within the next couple of years. Notwithstanding all the arguments outlined in our responses to the previous questions, does it really make sense to eliminate impairment testing at a time when it would be most relevant?

Next Steps

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

Yes.

Appendix

A. VRC’s Goodwill Impairment Preparer Survey Summary
B. VRC’s Goodwill Impairment User Survey Summary
The Financial Accounting Standards Board (FASB) recently opened an Invitation to Comment (ITC) soliciting feedback on whether and how to further simplify the accounting for goodwill and intangible assets for public companies. Given VRC's unique position as a user of financial statements and as a service provider working with “preparers” of financial statements, we polled our clients to get their thoughts on the current accounting for goodwill and intangible assets, and have summarized our findings below.

The responses to our survey, and especially the lack of homogeneity of the responses, were somewhat surprising. The three clear takeaways are:

1. Preparers prefer amortization of goodwill.
2. But, preparers do not want to change how intangible assets are identified and valued in a business combination.
3. Preparers are also split almost evenly on whether or not they believe the benefit of impairment testing exceeds the cost.

As we peel back the onion, we observe several other interesting trends from the respondents’ commentary:

- Preparers want simplicity – new standards on leases and revenue recognition has caused a significant increase in time and effort.
- When there are impairments, the work is significant – especially with Step 2 – and it creates a significant strain on senior management (CEO, CFO, etc.) Elimination of Step 2 of the goodwill impairment test goes a long way in reducing their effort.
- Despite the headlines minimizing the benefits of impairments, preparers do believe that the process of testing for impairment causes companies to be more forthright with information and analyze transactions more diligently pre-deal, in order to minimize the likelihood of an impairment.

In conclusion, we believe the results show a disconnect exists. 80% of respondents favor further simplification. 85% say no change is needed in parsing intangibles. And, nearly equally split, 51% see no cost-benefit issue. We believe the disconnect is indicative of an ever-decreasing bandwidth encumbering preparers as a result of conforming to an exhaustive list of revised accounting standards.

### ADDITIONAL (OUT-OF-THE-BOX) PREPARER COMMENTS

1. Simplify the test. Possibly a trigger-based approach.
2. Mixed model is an issue – organically generated intangible assets should be recognized, especially trademark and technology assets.
3. Goodwill should be recognized at a higher level – segment or possibly at the entity level.

### PREPARATOR SURVEY RESPONDENT DEMOGRAPHICS

- 22% Chief Accounting Officer
- 20% Chief Financial Officer
- 19% Director of SEC Reporting
- 15% Corporate Controller
- 24% Other*

- 76% Publicly Traded
- 17% Privately Held
- 2% Private Equity Firm
- 5% Audit, Tax or Other Service Provider

*Titles include Chief SEC Reporting Director, Sr. VP Finance, Senior Finance Manager, and Technical Accounting Manager

### PREPARATOR SURVEY RESPONSES

- 80% Yes, goodwill should be amortized.
- 71% Plan on adding back goodwill amortization in determining non-GAAP earnings calculations.
- 89% Yes, current footnotes are sufficient.
- 85% Intangible assets should be identified and valued in a business combination.
- 49% Yes, the benefit of impairment testing exceeds its cost.
The Financial Accounting Standards Board (FASB) recently opened an Invitation to Comment (ITC), soliciting feedback on whether and how to further simplify the accounting for goodwill and intangible assets for public companies. To better understand the needs and views of “users” of financial statements, VRC surveyed financial analysts, a group mainly comprised of CFA charterholders, who conduct fundamental analysis on public companies. (Although considered users, the survey excludes VRC valuation professionals.)

VRC believes that the user group is one of the most important stakeholder groups to be considered in evaluating the cost/benefit of the current goodwill impairment testing model. This group relies upon the information provided in financial statements to evaluate the risk profile, growth prospects, and the overall investment quality of public companies. It is reasonable to assume that the views of users closely align with the interests of shareholders.

VRC’s user survey posed the following questions:

1. When a public company announces a goodwill impairment charge, do you find the related information as it is currently reported on the financial statement to be informative?
2. Often before an impairment is taken, a public company communicates “early warning disclosures.” How important is this disclosure information to your research and analysis?
3. Would you be in favor of switching from the current impairment-only model to a model where goodwill is amortized? If no, please explain why.

USER SURVEY RESPONSES

The key takeaway of this survey is that users appreciate the information provided in goodwill impairments; however, they want more details surrounding acquisitions, post-acquisition performance, and management’s effectiveness in evaluating and pricing acquisitions:

- 87% Yes, current goodwill disclosures are important to research and analysis.
- 65% Yes, current impairment reporting on the financial statement is informative.
- 66% No, goodwill should not be amortized.

ADDITIONAL USER COMMENTS

The user group also provided some additional insights:

- Users are concerned about the growing differences between GAAP and non-GAAP earnings. Goodwill amortization would be an addition to the ever-increasing list of items included in non-GAAP measures.
- Users believe that amortizing goodwill may result in fewer impairments, thus masking the impact of poor managerial decision making.
- Amortization would be arbitrary, misleading, and not tied to economic reality.
- Users prefer more disclosures around goodwill, including the detail on the core causes of impairment. They believe that greater transparency leads to better capital allocation decisions.
- Goodwill impairments draw investor awareness and hold management accountable.

The responses to VRC’s user survey are consistent with the belief that goodwill, one of the most significant assets on the balance sheet, is not a wasting asset; amortization of goodwill would be misleading and generally misaligned with the actual economic benefits associated with goodwill.