Members of the Board:

ASA appreciates the opportunity to respond to the Board’s questions regarding the above captioned Invitation to Comment (ITC). As a leading Valuation Professional Organization (VPO) with over two thousand members engaged in the practice of business valuation, ASA is uniquely situated to provide insights to the Board from the perspective of valuation specialists. Below are responses to relevant sections of the ITC from ASA and, where appropriate, alternative proposals that were not specifically considered by the Board in drafting the ITC.

Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

Generally speaking, goodwill reflects the overall value of an enterprise, less the value of all of the enterprise's identifiable tangible and intangible assets.

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.

Yes. For public entities, the costs are modest, and the information is meaningful to users of financial statements. Goodwill impairment valuations are business valuations – many firms have the requisite expertise in-house. Third-party valuation firms are readily available to provide these services as well.

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.

ASA opposes amortization, especially if broadly applied without and provision for impairment testing when certain triggering events take place. There are two arguments — one conceptual, one practical — that underpin our view.

Conceptually, individual investors in a company expect ongoing cash flows from the businesses in which they invest, and often quantify a terminal value of cash flow as part of their investing decision. The ongoing cash flows do not solely derive from the finite-lived assets of a business combination, but also from the indefinite-lived goodwill the combination presents. To apply amortization to goodwill, and essentially treat an indefinite-lived element as all other finite-lived assets runs counter to investor behavior. Moreover, it creates a strange bifurcation where individual investor decisions are marked-to-market values and expected to produce ongoing results, while company acquisition decisions are seen as having a fixed lifespan. To treat two decisions, seemingly made on the same informed basis, differently is inconsistent.

Practically speaking, to amortize goodwill (especially from the outset) would deprive investors of a tool they use to evaluate management performance, especially in their acquisition strategies. To deprive investors of this information, especially on the precipice of a downward turn in the broader economy, is counterintuitive at best.
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).

While we disagree with the notion that amortization is appropriate, were the Board to move forward with amortization, we see two options for the Board to consider. Either the prior-used 40 year period under GAAP, or the 15 year period as used by the Internal Revenue Service, would be sufficient.

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.

In short, the methods or periods do not affect our view that amortization is inappropriate from multiple perspectives.

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.

Investors would be deprived of decision-useful information regardless of how an amortization period is applied, regardless of length. If anything, investors would add back amortization as part of calculating a non-GAAP earnings measure. Such an outcome raises the question of why the Board would propose amortization when one of the likely outcomes would be a dilution of the relevance of GAAP generally. This outcome suggests the use of goodwill amortization is inappropriate.

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.

While the elimination of Step 2 did provide significant cost savings, it was also likely to be rarely used in the current period of economic expansion. Moreover, investors are more concerned with knowing whether an impairment exists than the exact amount of the impairment. For that reason, the removal of Step 2 has not deprived investors of information that would be decision-useful. However, this information would be stripped away if impairment testing is abandoned for amortization.

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.

While there have been cost savings through the use of Step 0, there have been costs related to the auditing of the Step 0 qualitative screen. While clarity around these issues could provide further cost savings, such clarity should be provided by the auditor regulatory community and auditors, and not by FASB itself.
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.

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

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.

Entity level testing is unlikely to provide meaningful enough information to be a worthwhile undertaking, with most public companies likely to just compare book value of equity to the market capitalization. Testing at an operating segment level, while more useful than at the entity level, is also unlikely to provide as relevant and useful of information as testing at the reporting unit level.

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

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

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>Impairment Only</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, but such alternative should not be implemented until the effects of a downturn are understood</td>
<td>Entity Level – No Reporting Segment – Unlikely to be informationally significant, but better than entity level</td>
</tr>
<tr>
<td>Amortization with Impairment</td>
<td>No</td>
<td>Yes, but such alternative should not be implemented until the effects of a downturn are understood.</td>
<td>Entity Level – No Reporting Segment – Unlikely to be informationally significant, but better than entity level</td>
</tr>
<tr>
<td>Amortization Only</td>
<td>No</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>
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.

Generally, subsuming non-compete agreements into goodwill is fine from a practical standpoint, but there is also not much cost associated with the separate valuation of non-competes individually. The separate valuation of customer relationships is valuable in numerous industries, so a blanket sweep of customer relationships into goodwill does not make sense.

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.

In the context of customer relationships, the loss of retention information and attrition rates are two key data points that would be lost to investors if relationships are swept into goodwill.

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

Non-compete agreement valuations, generally, are unreliable as they rely on assumed impacts from competition in the absence of the agreement, and there is no ready way to observe these impacts effectively. By contrast, customer relationships are fairly reliable, as they rely on more historical information, such as prior profitability and attrition rates.

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.

Typically, intangible assets do not transact on an individual basis. Where they do, it tends to be seen in intellectual property, such as trademarks and copyrights, and government-issued licenses, such as taxi medallions and broadcast spectrum.

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.

Generally, ASA believes that Approach 4 is most preferable. The current approach to intangible valuation is generally understood and operates well. ASA does not see a compelling need for alternative approaches to the current system.

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.

[This section has no response.]
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.

ASA disagrees that subsuming additional intangible assets into goodwill requires the use of amortization of goodwill. As discussed earlier, the very premise for using amortization is one ASA disagrees with, since goodwill is an indefinite-lived asset.

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?

Where such factual disclosures provide some relevant decision-useful information to users, then their inclusion would outweigh the incremental cost of investigating and disclosing the facts and circumstances. There could be circumstances where, while no impairment charge is taken, the actions leading to impairment testing affect investor decisions going forward.

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

[This section has no response.]

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.

The incremental costs would be nominal. The benefits from additional disclosure need to be weighed against the potential adverse impact of disclosing proprietary information. Existing disclosure requirements should be appropriate in this setting.

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.

[This section has no response.]

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.

[This section has no 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).

[This section has no response.]

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.

[This section has no 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.

   [This section has no response.]

Other Topics for Consideration

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

   [This section has no response.]

Next Steps

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

ASA would be pleased to participate in the roundtable, as well as subsequent development of an alternative approach should the Board see desirability in such an alternative. If you have any questions or wish to discuss the views expressed in our comments further, please contact John D. Russell, JD, Senior Director of Government Relations and Business Development for ASA at 703-733-2103, or by email at jrussell@appraisers.org.