October 7, 2019

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

Subject: Financial Accounting Standards Board (FASB) Invitation to Comment on Identifiable Intangible Assets and Subsequent Accounting for Goodwill (“ITC”) (File Reference No. 2019-720)

Dear Technical Director:

The Allstate Corporation (“Allstate” or “Company”) appreciates the opportunity to share our thoughts and comments concerning the ITC.

We appreciate the FASB’s (“Board”) solicitation of feedback in advance of making a decision on whether to issue an exposure draft to amend the accounting for goodwill and intangible assets for certain reporting entities. Please find responses to the ITC questions in Appendix I of this letter.

Any modification to existing accounting standards must be grounded in the Board’s Conceptual Framework. In other words, any modification must result in financial reporting that is “useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.”¹ In order for information to be useful for stakeholders, the information must possess the characteristics of relevance² and representational faithfulness³. We considered these characteristics when developing our views as articulated herein.

Academic researchers have performed numerous analyses to assess the impact of current accounting and reporting for goodwill and intangible assets on the ability of analysts and investors to make more informed decisions about the expected cash flows that may be realized by reporting entities acquiring and holding those assets. References to these analyses are included in Appendix II of this letter.

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¹ Statement of Financial Accounting Concepts No. 8 (“CON 8”), par. OB2
² CON 8, par. QC6
³ CON 8, par. QC12
Select Academic Research

Purchase Price Allocation

Academic researchers note a level of relevance in purchase price allocation ("PPA") disclosures:
- Analysts find value in PPA disclosures, especially initial PPA disclosures. Jeny et al (2019) indicate that disclosures of externally acquired intangible assets allow analysts to better forecast firm performance. Further, in situations where there is negative market reaction to a business combination at announcement, the study finds that analysts more diligently scrutinize intangible-related disclosures in developing earnings forecasts.

In considering the research, we note the value of the initial PPA generally arises from its connection to an arm’s-length transaction. Moreover, the allocation is executed with the use of widely accepted fair value estimation techniques. Post-acquisition, while the same fair value estimation techniques may be employed that were originally used in executing the PPA, there is typically no external transaction (or transactions) to which to calibrate post-acquisition fair value re-estimates.

Goodwill Impairment

Li and Sloan (2017) performed a study showing that goodwill impairment does not provide stakeholders with a timely view as to the performance of an acquired business. Bens and Heltzer (2007) also performed a study that provides evidence to suggest that: (1) goodwill impairment is factored into the share price of the firms prior to the public announcement of goodwill impairment by the company⁴; and (2) for small firms, there is minimal market movement at the time a goodwill impairment is announced.

Evidence from researchers indicate that goodwill impairment recognition is a confirmatory action and does not provide ex-ante decision-useful information to investors. In considering research results, impairment recognition appears to lack relevance at the time of the write-off as the accounting recognition typically lags the events that cause the impairment. We note that while there is no generally available market-based information to objectively support the fair value of intangibles, investors look to operating performance metrics and where they reveal an underperforming acquisition they anticipate goodwill impairments before they are recognized in the financial statements.

In addition to timeliness, the relevance of a recognized impairment is also limited by circumstances in which goodwill resides in a reporting unit that includes value attributable to unrecognized, typically internally generated, intangibles. In that case, impairment of the carrying value may not be triggered although it may have been had the goodwill not been assigned to an impairment grouping including cash flows from other unrecognized intangible assets.

⁴ For firms with high analyst following or high percentage of shares held by institutional investors
Other Academic Analyses

While some studies use data from hundreds of companies, Stephen H. Penman of Columbia Business School’s Center for Excellence in Accounting and Security Analysis focused on examples from two companies to support a critical point that a business’s value can be determined from a combination of information from both the balance sheet and the income statement, even in situations when all intangible assets are not separately reported on the balance sheet (Penman 2009). The Penman evaluation focuses on the decision-useful information provided by the income statement in addition to the balance sheet when evaluating the availability of information to validate the value of intangible assets and goodwill. Penman notes that even when all intangible assets are not recognized on the balance sheet, the income statement can be used to observe abnormal returns which are indicative of the existence of intangible value.

Allstate’s Proposed Goodwill and Intangible Asset Accounting Model

Considering the academic research and the needs of stakeholders, we propose the following goodwill and intangible asset accounting model, at and after the acquisition date, for all reporting entities (public business entities, private business entities, and not-for-profit entities):

1. Separately recognize principal intangible asset(s) (“PIAs”) on the balance sheet and other intangible assets that have an indefinite life

PIAs are those intangibles that underlie the principal acquisition strategy. For example, if the principal reason for a business combination is to obtain access to a brand, the primary intangible asset would be the brand name / trade name. On the other hand, for a business combination whose primary objective is to acquire access to a distribution channel, the primary intangible asset would be the distribution channel.

We refer to this accounting model as the “Primary Intangible Model.” The Primary Intangible Model would address the needs of stakeholders who place value on the disclosure of externally acquired intangible assets, especially at the acquisition date. Post-acquisition, our proposed model would continue to provide valuable information about PIAs and other indefinite-lived intangibles but would not consume resources to report on intangible assets that are not critical to the business acquired.

In our proposal, all intangible assets besides PIAs and other indefinite-lived intangibles would be subsumed into goodwill. Indefinite-lived intangible assets would be recognized separately as we believe it would not be appropriate to subsume and amortize indefinite-life intangible assets into goodwill if goodwill is amortized.

2. Post-acquisition:
   - Amortize goodwill on a straight-line basis over a 10-year (or shorter) useful life;
   - Amortize any finite-life primary intangible assets over their useful life; and
   - Test for impairment of goodwill and all separately recognized intangible assets on at least an annual basis.
The use of a 10-year or shorter life for goodwill amortization would align public business entities with the accounting currently available for private companies and not-for-profit entities. Amortization of goodwill (which would contain any subsumed non-primary finite-lived intangible assets) is preferred due to the inability to objectively determine the fair value of goodwill and most intangible assets on a periodic basis. Reporting entities would continue to follow current accounting guidance and amortize finite-lived intangible assets over their expected useful lives.

Meanwhile, an annual impairment test for goodwill and all other separately recognized intangible assets would continue and would provide stakeholders with a level of visibility into the acquired business and its post-acquisition performance.

We appreciate this opportunity to share our thoughts, including those set forth in Appendix I, and would be happy to make ourselves available for further discussions with the Board and Staff. In addition, we would like to participate in the Board’s Roundtable that is scheduled for a future date.

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Attachments:
**Appendix I**: Response to Board’s Questions in the ITC
**Appendix II**: Copies of Academic Studies Referenced
Section 1: Whether to Change the Subsequent Accounting for Goodwill

Question 1: What is goodwill?

Goodwill is the excess of purchase price over the fair value of net assets acquired where the value acquired includes the fair value of identifiable intangible assets which may have finite or infinite lives. Goodwill is representative of the economic value of the synergies expected to be captured that justify the excess purchase price paid over the fair value of the net assets acquired.

Question 2: Benefits of current goodwill impairment model versus cost of providing the information

The primary benefit from today’s goodwill impairment model is that it provides stability in developing the financial results of a reporting entity. Since goodwill is not remeasured to fair value each reporting period, there is less financial statement volatility; only decreases in the value of goodwill are recognized when an impairment is triggered. If an acquiree comprises the majority of a goodwill reporting unit (“GRU”), the fair value of that GRU would predominantly consist of the acquiree and would provide stakeholders a clearer view as to the performance of the acquiree. On the other hand, if an acquiree is a component of a larger GRU, other activity in the GRU could overshadow the individual post-acquisition performance of the acquiree.

The costs of performing goodwill impairment tests mainly relate to the work of internal employees and external valuation specialists, where necessary, to calculate the fair value of the GRUs. Notwithstanding the recurring costs, we believe the benefits of the goodwill impairment model outweigh the costs as impairment is an appropriate mechanism to ensure the carrying value attributable to components of a business combination in the financial statements and footnotes remains recoverable.

Question 3: Support or opposition for a goodwill amortization with impairment testing model relative to the current impairment-only model

We support a model where goodwill is amortized with continued impairment testing on at least an annual basis or more frequently if reassessment triggers are tripped. The amortization of goodwill acknowledges a widely-held view that most reporting entities are subject to competition, technological advancements, changing market conditions and the identification of substitutes which result in goodwill having a more finite life. In the long-term, the economic value of acquired anticipated synergies may decrease as competitors have the ability to replicate competitive advantages and develop their own unique competitive advantages. Because synergies and other intangibles (excluding indefinite-lived intangibles) acquired in a business combination can be replicated by competitors in the long-term, we believe it is appropriate to amortize goodwill and certain intangibles subsumed into goodwill.

Further, as discussed in our response to Question 2, there are benefits to continued impairment testing, in providing a periodic assessment of the performance of the GRU into which the acquirer placed the acquiree.
From a cost perspective, we do not expect significant resources would be necessary to execute the amortization of goodwill. Operationally, amortization of goodwill requires an amortization schedule based on useful life, additions of accounts to the general ledger, minor changes to external and internal reporting, and an analysis of any necessary updates to internal control over financial reporting, all of which can be completed with modest effort and cost.

**Question 4: Goodwill amortization characteristics we support if the FASB requires amortization**

We support criteria (a), (b), and (d) through the following proposed requirements: We believe a 10-year maximum amortization period is preferable with a shorter period if the acquirer determines that the useful life of the goodwill is less than 10 years. Goodwill should be amortized on a straight-line basis. We believe a straight-line basis is appropriate because there is typically no objectively identifiable (or verifiable) evidence to show how a company would realize the synergies.

These requirements are identical to the requirements in ASC 350-20-35-63 in the accounting alternative offered to private companies and not-for-profit entities. We concur with the Private Company Council’s (PCC) assessment in Update 2014-02 that a 10-year useful life is appropriate because “generally, a significant portion of the assets and liabilities acquired in a business combination involving private companies would be fully used up or satisfied by the 10th year.” We would not expect significant differences between the cash flow generation of a business combination based on whether the business combination involved private companies or public companies. Further, we believe that using the same amortization requirements would improve comparability of financial statements between all types of business entities.

We believe that an amortization period shorter than 10 years could be used in some circumstances, such as:

1. A highly competitive industry that includes an acquirer with no contractual protections for intangible assets acquired. In this case, the acquirer has limited time to integrate the acquired business and realize the synergies reflected in goodwill before their value is fully depleted. Therefore, it would be appropriate to use a shorter amortization period.

2. A business where significant value is assigned to contractual relationships (or another intangible asset) with customers where there is an insufficient likelihood of obtaining continuing value from those assets through a contract extension after an existing contract expires. The low probability of contract extension could be due to the intensity of competition in the industry. In this case, the amortization period of goodwill should be limited to the remaining term of the contractual relationships because the value of the synergies included in goodwill are highly dependent on the contractual relationships themselves.
When selecting an amortization preference we considered other rationale included in the ITC and have provided reasons for not selecting those alternatives in the following table:

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Rationale for Not Selecting the Characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>c. A floor (or minimum) amortization period</td>
<td>Acquirees vary in size and complexity, so it would be difficult to determine a minimum amount of time that would be appropriate to realize synergies and/or cash flows from the acquired business.</td>
</tr>
<tr>
<td>e. Amortization based on useful life of primary identifiable asset acquired</td>
<td>Synergies introduced in goodwill may not be tied directly to the primary identifiable asset acquired. Accordingly, it may not be appropriate to assign goodwill’s useful life based on the primary identifiable asset’s useful life.</td>
</tr>
<tr>
<td>f. Amortization based on the weighted-average useful lives of the identifiable asset(s) acquired</td>
<td>Similar rationale as alternative “e”</td>
</tr>
<tr>
<td>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)</td>
<td>Allowing the use of management’s reasonable estimate would create inconsistencies in the useful lives selected by each acquirer. The assumptions would not be subject to objective validation and financial statement users would not be able to easily compare the useful lives selected by acquirers.</td>
</tr>
</tbody>
</table>

**Question 5: Do views on amortization versus impairment of goodwill depend on the amortization method and/or period?**

No. Our views on amortization versus impairment of goodwill would not change depending on the amortization method and/or period. A decision regarding amortization and/or impairment should consider realization of the synergies implicit in goodwill; amortization method and/or period should not influence whether amortization or impairment is the appropriate accounting treatment for goodwill.

**Question 6: If an acquirer uses a period other than a default amortization period, do equity investors receive decision-useful information?**

As discussed by the PCC in paragraph BC17 of Update 2014-02, a business enterprise value calculation can illustrate when the present value of cash flows are expected to be generated. If an acquirer uses a period shorter than the 10-year amortization period proposed in our response to Question 4, we believe an equity investor would obtain information on when a majority of the cash flows are expected to be realized from the business combination. The ability to identify a shorter useful life allows for compliance with our proposed accounting requirement in the response to Question 4, while at the
same time, providing equity investors with more information about the expected timing of returns for a given business combination.

**Question 7: Impacts of eliminating Step 2 of the goodwill impairment test, including cost to perform the test and any changes in usefulness of financial reporting information for users**

In eliminating Step 2 of the goodwill impairment test, we do not believe the usefulness of financial reporting information is reduced. ASC 350-20-50-2(a) continues to require disclosure of the facts and circumstances leading to an impairment. Stakeholders will continue to receive information about the cause of the impairment which allows them to understand whether the charge is related to a decline in fair value of other assets in the reporting unit or whether the acquirer is failing to realize the synergies and/or expected cash flows from a specific business combination.

From a cost perspective, we expect that a reduction in cost would come from (1) elimination of some but not all of the time and expenses of internal personnel and external valuation specialists to value the entire GRU and recalculate residual goodwill; and (2) time spent by external auditors to audit the impairment calculations.

**Question 8: Impacts of qualitative screen in Update 2011-08, including any cost reductions and any reductions of the usefulness of financial reporting information for users**

To date, the qualitative screen has not had an impact to our processes, as we continue to apply Step 1 of the goodwill impairment test to all reporting units.

**Question 9: Support or opposition to removing the annual goodwill impairment assessment**

Based on our responses to Questions 2 and 3, we oppose removing the requirement to assess goodwill for impairment at least annually.

**Question 10: Support or opposition to testing goodwill at a level other than the reporting unit**

We oppose an option for an entity to test goodwill at a level above the operating segment to which the acquisition is assigned. If goodwill were to be tested at a level higher than the operating segment, there is a higher risk that an actual impairment of acquired goodwill would exist and not be recognized. This would be the case where substantial internally generated and unrecognized intangibles exist that provide a “cushion” against decreases in fair value of an acquired business. An impairment test completed at a higher level in the company’s organization chart may not provide decision-useful information to stakeholders if the acquired business’s value has declined materially post-acquisition but no impairment is triggered due to cushion provided by cash flows unrelated to the acquired business.

We also would not be supportive of goodwill recoverability evaluated at a level lower than the GRU as that could create complexities for both investors / analysts and companies. For investors / analysts, if a company decides to apply impairment testing at lower level than the GRU, investors / analysts may be receiving impairment information for an excessive number of entities which could reduce the decision-usefulness of the information.
**Question 11: Other changes to the impairment test that the Board could consider**

We do not have any other recommended changes to the impairment test for the Board to consider.

**Question 12: Support for Various Alternatives to Subsequent Accounting for Goodwill**

We support amortization of goodwill with an annual or more frequent impairment test that is completed at the GRU, with no option to perform the impairment test at a level higher than the operating segment to which the goodwill is assigned.

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

**Question 13: Describe any cost savings if intangible assets are subsumed into goodwill**

We think it is useful to consider cost savings across specific time horizons and across various groups if intangible assets were to be subsumed into goodwill.

- **Short-term:** As it relates to completing the PPA, we expect lower external and internal valuation costs. Since valuation requires the identification and validation of many inputs and assumptions we expect there to be significant cost savings by subsuming certain intangible assets into goodwill. Further, for those involved in the disclosure process, we expect less time spent in the preparation of the financial statement footnotes. For those disclosures made in SEC filings, there would also be less time spent on XBRL tagging.

- **Long-term:** We expect long-term cost savings in not having to perform a periodic impairment tests once goodwill is fully amortized.

We expect positive downstream effects from subsuming certain intangible assets into goodwill, mainly related to lower external valuation and audit fees. It is difficult to meaningfully quantify the external fee savings, as the reductions are dependent on several factors, including the size of the acquisition, the type and number of intangible assets subsumed into goodwill, the external auditor’s materiality levels, and the method by which external auditors audit intangible assets.

**Question 14: If intangible assets are subsumed into goodwill, what decision-useful information would be lost?**

Based on our proposal in question 17 (i.e., only subsume into goodwill intangible assets that are not primary or indefinite-lived), we do not believe any decision-useful information would be lost. Financial statement users would continue to receive information about the primary intangible assets not subsumed into goodwill. Financial statement users could also use the income statement to gather additional information about the value of the acquired business to the overall company based on the presence of excess returns.

**Question 15: Reliability of certain recognized intangible assets**

In responding to this question, we considered that the term “reliability” was replaced with the term “representational faithfulness” with the issuance of CON 8. Our response considers the three characteristics of representational faithfulness: Completeness, neutrality, and free from error.
With estimates of certain recognized intangible assets, specifically customer relationships, the most common valuation method used is the income approach. With the income approach, there are various inputs and assumptions used to arrive at the fair value of customer relationships. For example, if a multi-period excess earnings method is used (which is common when customer relationships are the primary asset being acquired), forecasted future revenue for current customers must be forecasted. To determine the forecasted revenue, valuation experts consider various factors that could be used to assess customer revenue, including price/volume changes, length of contract term plus expected renewals, and customer attrition. While there are various inputs that may be observable or unobservable, an acquirer can typically put an appropriate process into place to value the customer relationships and can achieve representational faithfulness. We believe this would be true for all primary intangible assets.

**Question 16: Awareness of instances in which recognized intangible assets are sold outside of a business combination**

We are aware of instances where recognized intangible assets are sold outside a business combination, however, the activity would not be representative of deep, liquid markets. Transactions involving intangible assets outside of a business combination primarily occur with the licensing of trade names/brand names.

**Question 17: Of the four approaches, which approaches would you support on a cost-benefit basis?**

The most preferable approach is Approach 2, which is a principles-based criterion to measure certain intangible asset(s), which we call “primary intangible asset(s)” along with any indefinite-life intangible assets. This “Primary Intangible Model” would respond to the needs of stakeholders who find value in a PPA together with streamlined accounting for business combinations. The “Primary Intangible Model” would replace existing public business entity, private business entity, and not-for-profit entity guidance for business combination accounting.

We propose the following four-step process to identify and recognize “primary intangible asset(s)” in a business combination and indefinite-life intangible assets:

- **Step 1: Use the contractual-legal and separability criteria discussed in ASC 805-20-25-10 to determine the intangible assets that could be eligible for recognition as a “primary intangible asset”**

We propose using the principles discussed in ASC 805-20-25-10 to develop a list of identifiable intangible assets acquired in a business combination. For an intangible asset to be eligible for recognition on the balance sheet, the intangible asset must meet the contractual-legal or separability criterion in ASC 805-20-25-10. This list of identifiable intangible assets is then used in Step 2 to determine which intangible asset(s) would be recognized on the acquirer’s balance sheet.

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5 The Appraisals Board of The Appraisal Foundation:
http://www.appraisalfoundation.org/imis/docs/APB_VFR Valuation_Advisory_2_Final_061516.pdf
• **Step 2: Using the intangible assets from Step 1, determine the “primary intangible asset(s)”**

For each acquisition, an acquirer would consider which intangible asset(s) from the list in Step 1 represent a PIA based on the strategy and objectives of the associated business combination. We expect minimal incremental effort for Step 2 compared to current accounting processes, as acquirers already gather the information necessary to fulfill this objective to meet the disclosure requirement in ASC 805-10-50-2(e)(1).

An acquirer could identify more than one PIA, as there could be more than one material intangible asset that supports the rationale for a specific business combination (e.g., a brand name and a distribution channel).

• **Step 3: Recognize the primary intangible asset(s) at fair value**

Instead of separately recognizing all intangible assets at fair value, an acquirer would recognize only the primary intangible asset(s) on the balance sheet.

• **Step 4: Recognize any additional indefinite-life intangible assets at fair value and subsume any remaining intangibles into goodwill**

This step considers that there could be intangible assets with an indefinite life that were not recognized in Step 3. Indefinite-life intangible assets are not amortized, so it would be inappropriate to subsume indefinite-life intangible assets into goodwill and then amortize the goodwill. In the insurance industry, an example of an indefinite-life intangible asset is an insurance license.

Any remaining intangible assets not recognized in Steps 1 through 4 would be subsumed into goodwill and amortized accordingly. Although an acquirer would subsume certain intangible assets into goodwill, we propose that the acquirer could, but would not be required to, include a footnote disclosure with a list of other intangible assets that were subsumed into goodwill. This would continue to provide information about what was acquired in the business combination.

Applying the above process to two of Allstate’s more recent acquisitions, the primary intangible asset would account for a majority of the value ascribed to intangible assets (excluding goodwill).

<table>
<thead>
<tr>
<th>Acquiree</th>
<th>Primary Intangible Asset</th>
<th>Amount Allocated to Primary Intangible Asset</th>
<th>Total Intangible Assets (excluding goodwill)</th>
<th>Primary Intangible Asset as a Percentage of Total Intangibles</th>
</tr>
</thead>
<tbody>
<tr>
<td>InfoArmor</td>
<td>Customer relationships</td>
<td>$225</td>
<td>$257</td>
<td>87.5%</td>
</tr>
<tr>
<td>SquareTrade</td>
<td>Customer relationships</td>
<td>$465</td>
<td>$555</td>
<td>83.8%</td>
</tr>
</tbody>
</table>
Regarding the remaining approaches:

- Approach 1 (extending the Private Company Alternative for customer relationship intangibles and noncompete agreements) could only be used in a limited amount of acquisitions where an acquirer meets the requirements to subsume certain intangible assets.
- Approach 3 (subsuming all intangible assets into goodwill) would not meet the needs of stakeholders who obtain value from a certain level of intangible asset disclosures.
- Approach 4 (no changes from current accounting) does not allow for improved financial reporting that could provide stakeholders with more relevant information.

**Question 18: Operability of recognizing intangible assets based, in part, on assessing whether they meet the definition of an asset**

Under our proposal in Approach 2, we propose that acquirers continue to apply the guidance in ASC 805-20-25-2 that requires an assessment of whether an identifiable asset obtained by the acquirer meets the definition of an asset under FASB Concepts Statement No. 6. Therefore, we would not expect significant challenges in applying our proposed approach, as we are not proposing changes to the existing guidance. In Allstate’s past acquisitions, we have been able to effectively implement the ASC 805-20-25-2 guidance without significant difficulty.

**Question 19: Do you agree or disagree that other approaches (Approaches 1-3 in the ITC) would require the amortization of goodwill?**

We believe that Approaches 1 through 3 in the ITC would require amortization of goodwill. When intangible assets are subsumed into goodwill, those intangible assets lose their identity from an accounting perspective. Therefore, the only remaining asset is goodwill, and based on our response to Question 3, an acquirer should amortize goodwill in that situation.

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

**Question 20: Incremental costs and benefits of disclosing facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss**

We believe there is decision-useful information that stakeholders would receive regarding the specific facts and circumstances that led to goodwill impairment testing but did not lead to a goodwill impairment loss. We would consider this to operate similar to a “risk factor” for public companies where risks that have not yet manifested in recognition in the financial statements are identified as their recognition becomes more likely. This would provide investors with information about the risks of a future impairment and could provide qualitative and quantitative factors to identify the likelihood of a future impairment.

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

See question 23 for our proposed updates to goodwill disclosures and our assessment of the operability of our proposed disclosures.
**Question 22:** What is your assessment of the incremental costs and benefits of disclosing quantitative and qualitative information about the agreements underpinning material intangible items?

We would expect some incremental benefit related to disclosure of information about the agreements that support intangibles. As long as there are explicit requirements that are consistently followed by reporting entities, disclosing information about agreements would allow stakeholders to better understand the acquirer’s contractual protections in the agreements that could impact anticipated future cash flows derived from intangibles.

One limitation on additional disclosure is that information in the agreements may not provide information about the valuation of the intangible asset itself. For example, an acquirer could disclose information about their rights to use a trade name / brand name. However, that information may not be as relevant as it relates to inputs used in the valuation of a trade name. For example, in the relief from royalty method commonly used to value trade names, the valuation is based on the cash flows preserved by not having to rent the brand name. Also, royalty rates would not be found in the acquirer’s agreement that contains its rights to use a trade name.

The costs of providing valuation information may be high, depending on the number of agreements that support an intangible asset. If hundreds or thousands of customer relationships make up the intangible asset, it may take substantial time to summarize the terms of those agreements for disclosure. Further, if the terms of the agreements change, it could be difficult to track changes to legacy agreements related to the acquisition compared to agreements with the rest of the acquirer’s customers.

**Question 23: Deletions and/or additions to current disclosure requirements.**

To implement our proposed goodwill and intangible asset accounting model, the following deletions and additions would be needed:

**Deletions:**
- Delete requirement to separately disclose all intangible assets.

**Additions:**
- Align all companies to use the same goodwill and intangible asset accounting model proposed in our response to the ITC.
- Disclosure of goodwill’s useful life. If life is less than 10 years, discuss the factor(s) that led the company to adopt a shorter life.
- Disclosure of primary reason for acquisition, which relates to the primary intangible asset(s) recognized. Also, allow discretionary disclosure of intangible assets subsumed into goodwill.
- Disclose the nature and amount of primary intangible asset(s) and their useful life (lives), along with a description and the amount of indefinite-lived intangible asset(s) recognized separately outside of goodwill.

We believe the above disclosure additions are operable and would result in minimal implementation costs for acquirers.
Section 4: Comparability and Scope

Question 24: Impact on usefulness of financial reporting due to current noncomparability between PBEs and private business entities and not-for-profit entities

We believe that noncomparability between PBEs and all other entities would only impact a small group of stakeholders that have access to financial information of PBE’s and all other entities, primarily institutional investors and businesses that make or consider making investments in private business entities. Institutional and other investors would be able to obtain information about investments in private business entities as part of due diligence of an investment. A retail investor / member of the general public cannot obtain private company financial information in the same way that they can access public company information.

While retail investors may not have access to information about private business entities, the lack of comparability between PBEs and all other entities is minimized in the following situations:

- Acquisition of a private company by a public company. In that instance, all intangible assets are revalued under PBE accounting guidance, so whether the acquirer applied the PCC alternative to account for intangible assets and goodwill does not matter. When the financial statements are published, all stakeholders will be able to view the results of the combined company on the balance sheet and income statement.
- Filing of financial statements in SEC filings for significant acquisitions, as defined by the guidelines included in SEC Rule 3-05. For acquisitions where separate financial statements are included in a SEC filing, the financial statements must be presented as if the acquiree is a public company. In this instance, the general public can access the financial statement filings and perform their own comparisons, as needed.

Question 25: Costs and benefits of an option for PBEs

Providing an option to account for goodwill and intangible assets and on the method and frequency of impairment testing will reduce comparability of financial statements and disclosures across companies. Based on the research cited in our comment letter, if PBEs are provided an option to apply specific accounting guidance, the use of the option could result in less relevant information for stakeholders.

Question 26: How much does noncomparability reduce the usefulness of financial reporting information for PBEs under US GAAP versus IFRS

We believe that noncomparability between US GAAP and IFRS only impacts a limited population of investors that are investing into both the U.S. and foreign markets. With an understanding of US GAAP and IFRS, those investors would be able to determine if there are any significant differences between US GAAP and IFRS that would impact their investment decisions. The impact would vary from investor to investor.

There would be no impact to most retail investors, as those retail investors would not be investing capital in U.S. and foreign markets.
**Question 27: Sources of Comparability that are Most Important**

For business combination accounting, we believe that the most important source of comparability is comparability among all entities reporting under GAAP (source “a” proposed by the Board). Having one set of accounting standards gives stakeholders the decision-useful information that they need, regardless of the type of entity applying the guidance. Further, there is no additional cost to the Board to have the same proposed accounting guidance applicable to all types of entities. Once work is completed on updates to the business combination accounting model, those updates can be placed into the ASC and used by all companies.

**Other Topics for Consideration**

**Question 28: Other Comments**

We do not have any other general comments on the ITC.

**Next Steps**

**Question 29: Interest and Ability to Participate in the Roundtable**

Yes, we are willing, able, and interested in participating in the formal roundtable.
APPENDIX II

Citations of Academic Studies Referenced in Allstate ITC Response:

A. Jeny, Luc Paugam, Pierre Astolfi. THE USEFULNESS OF INTANGIBLE ASSETS’ DISCLOSURE FOR FINANCIAL ANALYSTS. INSIGHTS FROM PURCHASE PRICE ALLOCATION CONDITIONAL ON DEAL QUALITY. Comptabilité - Contrôle – Audit, 2019/2 Tome 25.

Bens, Daniel A. and Heltzer, Wendy and Segal, Benjamin, The Information Content of Goodwill Impairments and the Adoption of SFAS 142 (July 18, 2007). Available at SSRN: https://ssrn.com/abstract=1001744
