October 1, 2019

Mr. Shayne Kuhaneck
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-720

RE:  Invitation to Comment - Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Dear Mr. Kuhaneck,

Connor Group, Inc. is pleased to provide our comments on the FASB’s Invitation to Comment (ITC) - Identifiable Intangible Assets and Subsequent Accounting for Goodwill. Connor Group was founded in 2005 and is a technical accounting advisory firm built of Big 4 alumni and industry executives. We currently have over 250 accounting professionals and over 600 clients and specialize in helping our clients solve complex technical accounting issues under both U.S. GAAP and IFRS. Our clients represent industries such as technology, software, internet, cloud services, life sciences and manufacturing, amongst others. Many of our clients are emerging growth mid-cap or small-cap public entities, companies aspiring to become public in the near future, or high-growth private companies.

Overall, we support the Board’s direction of simplifying subsequent measurement of goodwill. In thinking through the questions in the ITC, we try to strike the balance between simplification and producing meaningful financial outcomes that faithfully reflect the economic benefits of business combinations. Specifically, we support amortization of goodwill over the expected benefit period estimated by the management with an impairment test performed upon a triggering event. In this regard, we believe companies should define what goodwill represents in each business combination and determine the estimated benefit period based on that definition. We do not support subsuming intangible assets into goodwill and amortize them together mainly because we do not believe this would result in reasonable financial outcomes in all situations due to potential significant differences in benefit periods. We have provided more detailed rationale in the responses to questions below.
Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

   We believe the representation of goodwill could vary among transactions because companies consummate acquisitions for different reasons. In a business combination where an acquirer purchases a target company in its vertical supply chain, an acquirer might be primarily interested in the synergies and cost-savings that both entities could create on a combined basis. On the other hand, if a company makes an acquisition to acquire its key competitor to reduce competition, then it might willingly pay a higher price for that company for not only the market share that such acquiree-competitor currently occupies but also the potential future market that it will grow into, for which the company will be competing in absence of the business combination. In our mind, companies should identify what goodwill represents in each business combination based on the specific facts and circumstances around that transaction and disclose the nature of the goodwill. Current guidance requires companies to disclose qualitative factors that make up the goodwill; however, we do not think these are high quality disclosures with sufficient detail to enable a user of financial statements to adequately understand the nature of goodwill underlying each specific acquisition. Please also see our responses to Question 21 in this regard.

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.**

   No. We do not believe the benefits of the current goodwill impairment model justify the costs.

   While we understand that some users use the current goodwill impairment model to hold management accountable for poor capital allocation decisions, we do not believe the current impairment model serves as an appropriate tool for that purpose. The fair value of a reporting unit could be affected, among other things, by the stock price of the entity, which in many cases has hardly anything to do with the performance of the investment made. In our experience, sometimes companies are “over-penalized” by the impairment test as a result of stock price decreases or economic or other factors that are outside of a company’s control and that might have nothing to do with the performance of the investment. Additionally, as the impairment test is performed at the reporting unit level, underperformance of a particular investment might be masked by increases in values of other components within the reporting unit.

   With respect to costs in performing the impairment model, in our experience companies often have challenges in allocating certain intangible assets to the reporting unit level especially in business combinations where intellectual property is one of the key assets acquired and may benefit various reporting units. For many of our clients, allocations made for impairment testing purpose are not very meaningful from management’s perspective as this is not how the performance of the business is reviewed. Lastly, the time and costs...
incurred related to the impairment test from preparing, internal review, and external auditor review is quite significant, which overweighs the associated benefits.

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

Yes, we support goodwill amortization with impairment testing. In our view, to a large extent, the benefits from goodwill will diminish over time, and this is because the combined entities will ultimately be supported by operations that are not related to the initial business combination. In this regard, some of the valuation practitioners\(^1\) have noted that goodwill represents components such as reputation (i.e. customer loyalty), future technology, workforce, synergies, etc. In our view, almost all of such components require continuous investments in order for companies to sustain the benefit (e.g. a higher growth rate) from the initial business combination. Over time, this benefit will be derived more and more from the subsequent investments than from the goodwill initially acquired. To illustrate our view by an analogy to a tangible asset, a house by its nature has a definite life and should be depreciated over its useful life. However, if the homeowner makes continuous investments into the house, e.g. making repairs and improvements continuously, the actual utilization period of the house could be significantly longer (i.e. indefinite) than the useful life of that house without any subsequent investments. From homeowner’s perspective, the utility of the house with continuous investments could be more or less the same each year over an indefinite period. However, in our view this should not change the nature of the house from a definite-lived asset to an indefinite-lived asset. We noted the argument from the same whitepaper that costs to maintain goodwill are included in the financial models used to price deals already. However, in our mind how valuation models are structured and performed should not dictate the nature of an asset and whether an asset should be amortized or not. Rather, the nature of the asset should be determined first based on how the benefit of such asset will be derived, and the valuation approach should then be determined based on that nature. Additionally, there is a view that a perpetual growth rate is usually assumed in a discounted cash flow model, which suggests that the goodwill is more in the nature of an indefinite-lived asset. In our view, the perpetual growth rate could be achieved by either assets (including goodwill) that are initially acquired through business combinations and/or subsequent investments. Accordingly, the use of perpetual growth rate in a valuation model should not serve as an argument to treat goodwill as an indefinite-lived asset. Also, while valuation models focus on a perpetual (long-term) growth rate, in practice, perpetual growth does not and cannot exist. Even successful businesses eventually fail, are acquired and absorbed into other operations, or at a minimum re-engineer themselves from time to time. Perpetual growth is merely a convenient formula used in valuation models. Based on these considerations, in our view, the value of goodwill diminishes over time, and therefore it is appropriate to amortize goodwill.

\(^1\)“Is goodwill a wasting asset” by International Valuation Standards Council, which could be found in the link below: https://www.ivsc.org/files/file/view/id/1599
Stated differently, at a time, typically many years after an acquisition has been consummated, when all of its identifiable tangible and intangible assets have been used up (consumed), and all of its workforce is gone, we believe there is no meaningful reason why the associated goodwill should remain on the balance sheet. In our mind, at that time there is also no meaningful information any user of the financial statements would be able to derive from presence or lack of impairment of this goodwill balance.

Additionally, while an amortization model will result in the goodwill balance becoming smaller over time, we believe a supplementary impairment test is necessary as there could be situations where an investment is significantly underperforming than expected and its value decline is significantly faster than amortization. Also, if there is an impairment, entities should also be required to re-evaluate the amortization period.

In terms of the impairment model, various team members have proposed two alternatives:

➢ Alternative 1: Retain the current goodwill impairment model. However, the impairment test should only be required upon a triggering event, removing the current annual testing requirement. The proponents of this model point out that companies will adopt ASU 2017-04 in a few months and this alternative further simplifies the post-adoption impairment model and requires minimal or no adoption efforts.

➢ Alternative 2: Apply the impairment model for long-lived assets to goodwill. This will align the impairment models and units of account for goodwill and amortizable intangible assets. The proponents of this model indicate that goodwill in many cases is not tied to reporting units and resides more naturally at the level of the acquired business unit, or the business unit into which the acquired entity was integrated. Therefore, the current impairment model (with or without the adoption of ASU 2017-04) does not serve as a good basis for assessing whether impairment has occurred. Additionally, once it is required to be amortized, with reduced risk, goodwill can be viewed as being no different than other intangible assets. Under this approach, goodwill would be assessed for impairment just like any other tangible and intangible long-lived assets at the asset group level (i.e. the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities). If this alternative is selected, there could be some initial adoption cost; however, it should save costs for post-adoption application. Entities already assess long-lived assets for potential impairment, and thus no incremental testing will be required. The existing separate goodwill impairment will be eliminated.

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).

Our view is that the amortization should be based on management’s reasonable estimate (option ‘g’). This aligns with our response to Question 1 above in that goodwill may represent different benefits in each business combination transaction. Therefore, entities should first define what goodwill represents for each transaction (based on the intention, the purpose, and final terms of the transaction) and then determine the period over which the related benefit will be derived for amortization purposes. In certain circumstances, and consistent with our thoughts below regarding the method of amortization, there could be periods when no amortization is recorded. This may arise, for example, when goodwill relates to an acquisition that primarily embodies ongoing IPR&D projects.

With respect to options ‘a’, ‘c’ and ‘d’, defining a default or floor for the amortization period might be too arbitrary and could work for some transactions but not others. With respect to option ‘e’, in business combinations where acquirers are primarily interested in a specific asset and goodwill essentially represents payment in excess of the fair value of that specific asset, aligning the amortization period of goodwill with primary identifiable asset acquired may likely make sense. However, it does not work well in many other business combinations where there are numerous identifiable assets acquired and/or an acquirer’s intention for paying in excess of the fair value of those assets does not relate to the primary identifiable asset (e.g. an assembled workforce). In addition, if the purpose of the acquisition was for a primary identifiable asset, the amortization period would likely be the same under this option as under option ‘g’. Similarly, for option ‘f’, goodwill in many cases may not have a strong correlation with the identifiable assets acquired, so that using a weighted-average life of identifiable assets acquired may not provide for the most relevant amortization period of the related goodwill. For example, a transaction where goodwill represents synergies or future market share that the acquirer would lose to its competitor-acquiree in absence of the business combination, goodwill would not necessarily have a similar benefit period as the identifiable assets acquired.

With respect to option ‘b’, we do not support a quantitative cap for the same reason discussed in the preceding paragraph. However, we believe a qualitative cap on amortization period could be established. Specifically, the cap would be the longest benefit period of any identifiable acquired assets (i.e. amortization and/or turnover period) and components of
goodwill (e.g. workforce turnover). In our view, this qualitative cap would reflect the fact that no benefit will be derived from goodwill once all “ingredients” of the acquired business are fully consumed.

We recognize estimating an amortization period based on management’s reasonable estimates could involve significant judgment. However, this exercise is very similar to what entities do today for other intangible assets, and could be consistent with the analysis that companies perform prior to deciding whether or not to acquire another company, and if so, what the suggested consideration to acquire that company should be. Considering the judgments and exercises involved in the current goodwill impairment model, we believe the amortization (plus a supplementary impairment test upon a triggering event) will reduce the application costs.

We understand that regardless of which model (amortization versus impairment) or which amortization period is selected by the Board, certain users would still add back the income statement impact from goodwill for their analysis purpose as they do for intangible asset amortization, or goodwill impairment today. However, with the model we support, we believe entities will be required to provide more qualitative discussions about the nature of goodwill, which from our experience, is more important and valuable for users

Lastly, in weighing the various amortization periods proposed by the Board, one key element is to strike a balance between simplification and producing meaningful financial outcomes that faithfully reflect the economic benefits of the business combinations. An amortization period that involves a default, cap, or floor period might oversimplify the financial results, and would result in less meaningful information. Also, assigning a default period will discourage entities from disclosing the nature of the goodwill which would provide useful information to financial statement users. Given the size of the goodwill balances for many companies and that amortization would result in a direct impact on the income statement, we believe some costs are justifiable to provide meaningful information. This thought process leads us to choose management’s reasonable estimate as the basis for amortization period. Additionally, in our view, similar to the method of amortization for intangible assets, goodwill amortization should also reflect the pattern in which the economic benefits of goodwill are consumed or otherwise used up. A straight-line amortization method could be reasonable to apply when that pattern cannot be reliably determined.

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.**

As responded in Question 3 above, we support the model of amortization with impairment testing upon a triggering event. Also, we support using an amortization period based on management’s best estimate. If another amortization period is selected by the Board, we believe the amortization plus impairment model would still aid in simplifying the current guidance and reduce costs for preparers, but would also reduce the volume of meaningful information for users.
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.

This question seems to suggest that the amortization period should be based on a default period unless entities provide a justification of an alternative amortization period other than a default period. We do not support this view. In order for an entity to determine whether it has to deviate from the default period, it will need to first assess what the amortization period should be and then compare that with the default period. Further complexity is introduced as to how much variation between the amortization period and the default period warrants a deviation from this default period. In addition, many companies may simply not justify a different amortization period than a default period which would then limit usefulness of that information to financial statement users. We believe this process is more costly than the model we support.

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?

Yes – based on our limited experience to date, the one-step goodwill impairment test can result in significant cost reductions. However, many entities do not need to perform Step 2 today; for these entities, there may not be a meaningful impact on the costs. Additionally, as many private companies have only one reporting unit, in many cases they do not have the same challenges as large public entities face when performing the impairment test. Given that ASU 2017-04 will only be effective for public entities starting next year, we encourage the Board to perform outreach to determine the extent the one step approach reduces cost.

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

We would encourage the Board to perform outreach with this regard given many users report that they ignore the impairment amount in their analyses as pointed out in the ITC.

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.

Yes – based on our experience, it does reduce the cost of performing the impairment test for various entities. However, there are instances where companies spend a significant amount of effort performing assessments related to the qualitative screen, and may also eventually determine that they still need to perform Step 1 quantitative assessment. The level of effort to perform the qualitative screen may turn out as high as that to perform Step 1 test. Despite the option to bypass the qualitative screen test, companies might not realize that prior to going through the screen test. For those companies, the introduction of qualitative screen
does not reduce, and in fact, may increase the costs. We do not have any improvements to recommend related to the qualitative screen test.

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.

Relative to the current impairment model, we support removing the requirement to assess goodwill for impairment at least annually. If entities identify drivers of fair value of the reporting unit appropriately and have the internal control in place to identify the triggering event timely, entities should get to the same answer in terms of when and if there is an impairment.

We also support removing an annual requirement to test goodwill for impairment when the impairment model is used together with goodwill amortization.

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.

We do not support providing the option to test goodwill at the entity level whether it is relative to the current impairment model or used together with goodwill amortization. Unlike private companies which in many cases have only one reporting unit, large public companies have complex business streams and commonly have multiple reporting units. Impairment testing at the entity level will not provide meaningful result as increases and decreases in the value of various components within an entity may offset each other, or mask underperformance. This is already an issue in the current impairment model at the reporting unit level, and moving it to the entity level will further magnify the issue.

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

We have not identified any other changes to the impairment test that are not included in this ITC except for one of the alternatives discussed in our response to Question 3 above, that is, align goodwill impairment testing with that for long-lived assets.

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>Do You Support the Indicated Model? Yes/No</th>
<th>Do You Support Requiring an Impairment Assessment Only upon</th>
<th>Do You Support Allowing Testing at the Entity Level or a Level Other Than the</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment only</td>
<td>a Triggering Event?</td>
<td>Reporting Unit?</td>
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<td>----------------</td>
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<tr>
<td>Do not object if upon triggering event</td>
<td>Yes</td>
<td>No – However, we would support applying the long-lived asset impairment model to goodwill and hence testing at the asset group level (see response to Question 3 above)</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Please refer to our responses to questions above as to why we support certain models.

**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.

While this approach is allowed in today’s private company alternative, it is not a popular alternative among our private client base. Most of our private clients are either in the process of filing for an IPO or could be filing an IPO within a few years. If they were to elect private company alternatives, they would need to retrospectively adjust the accounting upon their public filings. Because of this reason, we are unable to provide a concrete answer as to whether there are cost savings if certain intangible assets were subsumed into goodwill and amortized. Specifically, we are uncertain whether combining goodwill with certain intangible assets would actually reduce costs associated with valuation efforts for purchase price allocation. Additionally, cost-savings for subsequent accounting depends on the specific subsequent accounting model, e.g. whether the combined goodwill and certain intangible assets would be amortized and also subject to an impairment model or not, how the amortization period would be determined, etc.

We do not support the proposal to subsume certain intangible assets into goodwill. Please see our response to Question 17 below.
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.

As we do not represent the user community, our insights on matters pertinent to this question are limited. With that said, we do not support the proposal to subsume certain intangible assets into goodwill primarily because we believe it will not produce meaningful financial outcomes in many cases due to potential significant differences in useful lives between goodwill and certain intangible assets (please see our response to Question 17 below) and not because of the potential loss of decision-useful information. This is because in our mind a reasonable accounting conclusion that reflects the underlying economic substance of the transactions is the most critical for decision-making. Any potential loss of information could, to a large extent, be mitigated by incremental disclosure requirements if the accounting model makes sense.

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

We do not believe measurement of these intangibles is any less reliable than measurement of any other intangible assets. We observe that measurement practices and techniques are well established and accepted among the valuation professionals.

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.

Yes – we are aware of transactions where recognized intangible assets, e.g. intellectual property (technology), customer lists, etc. are sold separately outside of business combination transactions. Those transactions are not infrequent.

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.

We support Approach 4 primarily because of the following reasons:

• The estimated benefit periods of intangible assets could be very different from that of goodwill such that combining intangible assets together under approaches 1 - 3 would be
challenging. Similar to what we discussed earlier, we do not feel those approaches strike a good balance between simplification and producing meaningful financial outcomes.

- We acknowledge that in certain cases, goodwill might represent a payment in excess of the fair value for certain intangible assets. In those cases, combining them together might make sense as you would get to a similar answer as you would if each were separated and assigned their own amortization periods. However, this would not work for many other business combinations. Additionally, the costs incurred for separately accounting for such intangible assets under the model we support (i.e. amortize goodwill over a benefit period estimated by the management subject to impairment testing) likely would not be too significant, given there should be synergies between the analyses done for such intangible assets and goodwill.

- Most companies understand the current intangible asset impairment model well and do not feel that it is overburdensome. This is because the current model, to a large extent, aligns with the fundamental principles of other asset impairment models, e.g. long-lived assets. Accordingly, the current intangible model is not overly costly.

- Given the above, we believe the costs associated with adopting and implementing a new standard to determine whether and how to subsume certain intangible asset into goodwill are not justified.

- As we do not support any of Approaches 1-3, we will not rank them in the order of preference.

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.

N/A – as responded in Question 2 above, we do not support Approach 2.

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.

N/A – as responded in Question 2 above, we do not support Approaches 1-3.

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?

We believe the costs of disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment outweigh the benefits. We are responding to this Question in the context of the impairment model we support (i.e. amortize goodwill over a benefit period estimated by the management subject to impairment testing upon a triggering event).
• Based on this model, an impairment testing would be triggered if certain events or circumstances has occurred that would indicate that the fair value of the reporting unit may be lower than its carrying value. This assessment involves significant judgment as to what types of events and circumstances should be monitored, how much impact each of them may have on the reporting unit fair value, etc. Some companies might find it hard to draw a concrete conclusion on the triggering event screening and may proceed with performing the impairment testing for more accuracy, but eventually conclude that there is no impairment. Based on the proposed disclosure requirements (i.e. disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss), those companies would be “penalized” and required to provide what facts and circumstances prompted the company to perform the impairment testing. In our mind, the proposed disclosure requirements will discourage companies from performing the actual impairment assessment if they could justify in any way why a triggering event has not occurred. This is because the proposed incremental disclosures likely will be perceived as a negative sign for the business. As a result, goodwill impairment loss might be recognized later than it is today.

• Additionally, in those cases where companies just try to perform a more accurate assessment by performing the actual impairment test and conclude there is no impairment loss, users who read the proposed disclosures could potentially be misled and left with an impression of significant negative trends.

• We also do not believe the proposed incremental disclosures provide an early notification of changes in facts and circumstances that indicate a higher likelihood of a future goodwill impairment loss. In our mind, the events or circumstances that typically might trigger impairment testing are usually discussed in MD&A or other parts of the SEC filings already.

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

Entities are required to provide a qualitative description of the factors that make up the goodwill recognized. Some of the more common disclosures in this regard are the expected synergies and intangible assets that do not qualify for separate recognition. In our experience, these disclosures are mainly boilerplate texts without much concrete useful information. Part of the reason is that there is no requirement to link the statements made in those disclosures to any calculations for measurement.

If goodwill is required to be amortized over a benefit period estimated by management, entities should be required to determine the amortization period based on what they have stated about what goodwill represents and disclose the close linkage between the two. This likely will result in a more meaningful disclosure than we see today.

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.

We would recommend the Board to perform outreach in this regard with the specific incremental disclosures the Board is thinking about. In our mind, the only incremental disclosures that might be worth considering (subject to cost benefit analysis) are discussions related to how certain intangible assets could affect the growth rate of the combined entities (and subsequent update to that expected growth rate if material changes occur) from management’s perspective, as that is critical for understanding the impact of the business combination. If the requirement is to discuss specific agreements underpinning material intangible items, this could be too detailed for financial statement users and result in an undue cost for preparers to continually monitor them for internal accounting purposes as well a financial statement disclosure.

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.

We have not identified any additional areas for the Board to consider.

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.

We do not believe noncomparability between PBEs and private entities is an issue. In our experience, to some extent, private entities are serving a different group of investors than public entities. Private companies are not typically compared side-by-side with public companies. In cases where public company information is used in valuation of private companies or certain assets of private companies, the valuation is usually driven by transactional data for which goodwill and intangible assets or related impairment information is not part of the inputs. In addition, for those private entities who are contemplating becoming public entities, generally their accounting for goodwill and intangibles already follows the public company model, or will be subsequently revised to match the public company model prior to an IPO.

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).

We do not believe PBEs should be given those options as we believe comparability among public entities is important given those options would affect net income. Regarding the frequency of impairment testing, we do not believe the removal of annual testing
requirement would result in significantly different conclusions as to if and when an impairment has occurred.

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.

Most of our clients who enter into business combination transactions are under US GAAP. For those of our clients who have to prepare financial statements under both US GAAP and IFRS, significant differences in the two standards (e.g. amortization under one standard and impairment-only under the other) would result in significant practical challenges, just like any other areas where there is a significant divergence between US GAAP and IFRS. At the same time, as pointed out in the ITC, users often do not assign significant value to goodwill related charges in the income statement. Thus, the loss of useful financial information for the users due to lack of comparability might be limited.

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.

Consistent with our response to Question 25 above, in our mind, the most important comparability is among all PBEs reporting under GAAP (option ‘b’ above). Option ‘a’, ‘c’, and ‘d’ are less important as we believe those groups referred are not typically compared with each other directly.

Other Topics for Consideration

28. Do you have any comments related to the Other Topics for Consideration Section or other general comments?
   We do not have any other comments.

Next Steps

29. Would you be interested and able to participate in the roundtable?
Yes – Connor Group would be interested in participating in the roundtable to share our observations and expand on our recommendations in accounting for goodwill and intangible assets.