October 8, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-720

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (the “ITC”). The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We support the Board’s efforts in considering what has been a controversial issue in the industry and encourage the Board to take action to reduce the cost and complexity of subsequent accounting for goodwill. As our Committee deliberated, there were different viewpoints on whether goodwill should be amortized and the decision useful information related to customer-related intangible assets, as further explained in our responses to the questions in the ITC.

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We appreciate the opportunity to provide our comments and observations on the ITC and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**Brian Kot, CPA**  
Chair, Accounting Principles Committee

**William Keirse, CPA**  
Vice Chair, Accounting Principles Committee
Section 1: Whether to Change the Subsequent Accounting for Goodwill

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

Response: We note the FASB Master Glossary defines goodwill as representing future economic benefits arising from other assets acquired in a business combination or an acquisition by a NFP that are not individually identified and separately recognized. We believe goodwill reflects several possible components, including those noted in the basis for conclusions to Statement 141(R), such as expected revenue or cost saving synergies, and unrecognized intangibles such as work force, but mainly includes the fair value of the acquired entities “going concern” element, which includes expected future cash flows of the acquired entity beyond those cash flows associated with the acquired business’s identified net assets.

Question 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.

Response: The Committee was divided on whether the current goodwill impairment model benefits outweigh the costs associated with providing that information. We acknowledge the Board’s efforts to address feedback regarding the cost to perform the goodwill impairment test. Accounting Standards Updates No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment, and No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, has alleviated the cost to perform the goodwill impairment test for some PBE financial statement preparers. However, PBE’s unable to apply the qualitative screen believe the cost to perform the goodwill impairment test outweighs the benefits. These costs include time to identify and assign net assets to reporting units, develop cash flow forecasts at the reporting unit level, identify peer group comparisons, pay a valuation firm, and have external auditors audit the impairment test results.

We struggle to identify the benefits associated with the required annual impairment assessment whether it results in an impairment charge or not. Companies argue – and analysts appear to accept – that goodwill impairment charges should be ignored because they are not part of a company’s core earnings and that goodwill impairments are non-cash charges (regardless of how the company financed the acquisition). Further, some users of financial statements believe that goodwill impairment charges may be lagging indicators of impairment in that the decline in the performance of the acquired company (or the reporting unit to which it was assigned) began much earlier. Finally, while the ITC notes that one of the benefits of the goodwill impairment test is that it may provide users of financial statements with information (or confirmation, in the case of an impairment charge) that an acquisition is underperforming against management’s original expectations, companies argue that goodwill impairment charges do not necessarily provide financial statement users information about management’s acquisition track record or that acquisition’s performance against management’s original expectations because the goodwill impairment model is not acquisition-specific. Goodwill associated with an acquisition is required to be assigned to reporting units, which in itself is a subjective process. Those reporting units could include other operations whose performance obscures an underperformance of the acquired company’s operations or that create a significant drag on the acquired company’s performance. In the former case, users receive information that suggests all is well with the acquired company’s performance while in the latter case, users receive information that suggests the acquired company is underperforming. In reality, neither conclusion by users is supported by the facts. Accordingly, the goodwill impairment test may or may not identify underperforming previous acquisitions.
**Question 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.

**Response:** Some of the Committee members support goodwill amortization with impairment testing. Those members believe goodwill, or at least many of the components comprising goodwill, is a “wasting asset” that must be refreshed by management’s actions which over time, is replaced by internally generated goodwill resulting from those actions. Accordingly, if the original acquired goodwill is not an indefinite-lived asset because it’s a “wasting asset”, the deterioration of that purchased goodwill may be better included as part of the ongoing operating costs of the entity instead of as a one-time charge recognized at some future date. Those members believe that reflecting goodwill as an ongoing operating expense instead of as an impairment charge may be a better reflection of the performance of the entity. While those members supporting amortization recognize that there are also concerns about the decision usefulness of the resulting amortization expense in light of the fact that many entities have convinced users of financial statements that non-GAAP financial measures that do not reflect the amortization of the cost of acquired intangibles is relevant to the performance of the entity, they note that the same concerns exist for impairment charges and therefore they favor the lower cost option from the two models.

Those members who do not support amortization of goodwill agree with the Board’s previous conclusions in Statement of Financial Accounting Standards (“SFAS”) No. 142, Goodwill and Other Intangible Assets, that not all goodwill declines in value and an arbitrary period to amortize goodwill does not reflect the economic reality and, accordingly, amortization does not provide decision useful information.\(^1\) Those members note that goodwill in an acquisition represents, from a valuation perspective, the earnings of the acquired entity in perpetuity and therefore do not agree that subsequent to the acquisition the goodwill from the acquired entity is replaced by goodwill generated by the combined entity. Members who do not support amortization of goodwill note the Board’s findings from previous studies of the matter that many analysts ignore goodwill amortization expense in measuring the operating performance of management and in their investment and credit decisions\(^2\). In addition, those members believe a goodwill amortization model will contribute to wider use of non-GAAP measures by PBEs to remove such amortization expense from GAAP earnings and that the proliferation of non-GAAP measures casts doubt on the ability of GAAP measures to provide decision-useful information to investors. A recent study found the use of non-GAAP reporting among S&P 500 companies increased from 53% in 2009 to 71% in 2014\(^3\). In that study, amortization expense was found to be the second highest recurring non-GAAP adjustment, which may indicate amortization is often disregarded when evaluating a company’s operating performance. Committee members who do not favor amortization of goodwill believe the Board should consider that a change to amortizing goodwill will likely result in PBEs adding the amortization back to net income in presenting non-GAAP financial measures before it decides to change from the impairment only model to an amortization model (whether or not that model requires impairment testing). Those members believe that, eventually, users will reject such non-GAAP presentations, particularly in situations where a company that routinely makes acquisitions asserts that it is adding back amortization resulting from those acquisitions because they are not a core part of its operations.

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\(^1\) SFAS 142, paragraph B79.
\(^2\) SFAS 142 paragraph B90.
\(^3\) Non-GAAP Earnings: A Consistency and Comparability Crisis?; D. Black, T. Christensen, J. Ciesielski, and B. Whipple (June 2018) acquisition
**Question 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).

**Response:** Those members who support amortization of goodwill generally supported either e or f above in determining the amortization period. While the majority of the Committee members supporting amortization did not support a default, maximum or minimum period, as those are arbitrary periods that would not provide decision useful information, there was a view from some on the Committee that the amortization period should align with that provided to private companies. Members who support amortization acknowledge the useful life of goodwill is difficult to predict and the pattern in which they believe acquired goodwill diminishes and is replaced by internally generated goodwill is difficult to reliably determine. However, given acquired goodwill arises from the net assets of the business acquired, members who support amortization believe either a method based on the primary identifiable asset acquired, or the weighted-average useful lives of identifiable long-lived assets acquired would be more reflective of the period of benefit expected with the acquired goodwill and hence its amortization period. We do not support g above as that would require reporting entities to identify attributes in a business combination beyond that currently contemplated in ASC 805, such as the expected period that synergies will benefit, or the life of acquired workforce, which would add cost of accounting for goodwill.

**Question 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.

**Response:** Certain of the Committee members’ views on amortization versus impairment of goodwill did not depend on the amortization method or period, while other Committee members would prefer retaining the current model if goodwill amortization was based on an arbitrary period such as default, maximum or minimum. Those members believed an arbitrary amortization period would not provide decision useful information relative to the current model.

**Question 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.

**Response:** For the reasons noted in question 4, the Committee does not support a default amortization period. If a final Accounting Standards Update allowed for financial statement preparers to justify a period other than the default period, we believe that the resulting information could be decision-useful.
**Question 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?

**Response:** Yes, the amendments in Update 2017-04 reduced 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.

**Response:** Update 2017-04 may reduce the usefulness of financial reporting information on the amount of goodwill that may be impaired because the elimination of step 2 only allows a company to consider the carrying value relative to the fair value of the entire reporting unit. When the fair value of the entire reporting unit reflects the fair value of unrecognized or appreciated assets, a company may conclude no goodwill impairment is required, even though an impairment would have been recognized had the company completed step 2. The same concern exists with recognizing goodwill impairments when, in fact, other assets are impaired, but that impairment is not reflected because of differing impairment models for those assets, such as allowing a company to consider whether long-lived assets other than goodwill are impaired by comparing the carrying amount of those assets or asset groups to undiscounted future cash flows. In those situations, the amount of goodwill impairment may actually be overstated by the impairment of long-lived assets other than goodwill that would not be recognized under the current model.

**Question 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.

**Response:** The amendments in Update 2011-08 reduce the cost to perform the goodwill impairment test for those entities that can avail themselves of that option. We do not believe Update 2011-08 reduces the usefulness of financial reporting information for users.

**Question 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.

**Response:** If the current model is retained, we would oppose removing the requirement to assess goodwill (either qualitatively or quantitatively) for impairment at least annually. We believe goodwill, like any asset, may be subject to an impairment at some point because it is not an infinite-lived asset, but either finite or indefinite-lived, and accordingly, should be evaluated annually. We believe the qualitative screen would be similar to an event-driven impairment assessment, so there would not appear to be any gain by replacing the qualitative assessment in place with a different qualitative assessment that looks for similar indicators of impairment.

**Question 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.

**Response:** If the current model is retained, Committee members continue to support testing for impairment at the reporting unit level.
The Committee does not support providing an option to test goodwill at the entity level. The Committee believes that level would be too high for any meaningful evaluation of the impairment of goodwill. We note that goodwill typically is not a singular asset, but an asset that is comprised of goodwill from multiple past acquisitions. A model that allows for assessing goodwill at the entity level would result in assessing the impairment of goodwill from unrelated businesses as one unit of account, which could mask impairment of goodwill attributable to unprofitable businesses by combining that goodwill with the goodwill of profitable businesses.

**Question 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.

<table>
<thead>
<tr>
<th></th>
<th>Do you support?</th>
<th>Do you support impairment testing only with a triggering event?</th>
<th>Do you support allowing testing at the entity level or a level other than the reporting unit?</th>
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<tbody>
<tr>
<td>Impairment only</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Amortization only</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
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**Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination**

**Question 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.

**Response:** The Committee believes that the cost savings for subsuming certain recognized intangible assets into goodwill to be minimal. At initial measurement, there may be some cost savings in consulting and similar fees if these items are not separately recognized; however, these items may still need to be separately identified for tax purposes. In subsequent periods, there may be some cost savings as a singular intangible rather than multiple intangibles will need to be assessed for impairment. We anticipate that there may be some savings related to time saved by internal staff as well as reduce professional fees: valuation specialists, audit fees, etc.

**Question 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.
Response: The Committee is not aware if there would be a loss of decision useful information if certain recognized intangible assets were subsumed into goodwill. The Committee notes the Board concluded in paragraph B158 of SFAS 141 that decision usefulness of financial statements would be enhanced if intangible assets were distinguished from goodwill. Some members of the Committee agree separately stating customer-related intangibles does provides valuable information as noted by the Board in SFAS 141. Understanding the existence of key customer relationships can be valuable information for an investor, lender, business owner, etc. If these types of intangibles were not separately stated, it is possible that that a stakeholder would not be alerted to the importance of certain relationships and make uninformed decisions.

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

Response: The measurement of noncompete agreements, customer-related intangible assets, and other similar intangible assets are subject to a significant degree of estimation uncertainty; however, that uncertainty is no different from the measurement of many other assets and liabilities. Notwithstanding the uncertainty, we believe those measurements are reliable estimates at a point in time.

Question 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.

Response: We are aware of very limited instances where such assets are sold outside of a business acquisition.

Question 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

Response: The Committee does not believe the private company alternative should be extended to PBEs for the reasons outlined in question 14. The private company alternative if extended to PBEs and elected would also requires goodwill to be amortized by those PBEs. Some Committee members do not agree with amortizing goodwill for the reasons outlined herein.

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

Response: The Committee believes that Approach 2 will be difficult to implement and lead to increased diversity in practice.

c. Approach 3: Subsume All Intangible Assets into Goodwill

Response: The Committee believes that Approach 3 will result in the loss of decision-useful information as discussed in Question 14 and that any potential cost savings to be insignificant.

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

Response: The Committee believes this to be the most viable option.

Question 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.
Response: The Committee believes that applying principles-based criteria based on the asset definition to be operable.

Question 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.

Response: We believe these approaches would necessitate the amortization of goodwill. Certain separately identifiable intangible assets have a finite life and some sort of amortization would be necessary. If these identifiable assets were not amortized, this would add significant pressure on goodwill impairment testing.

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

Question 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?

Response: The Committee does not believe there is decision useful information in disclosing the facts and circumstances that led to impairment testing that have not led to a loss under the current model unless the impairment test is the result of applying the qualitative screen. If the FASB were to apply an impairment model with testing only upon triggering events, then the Committee would support disclosure of the facts and circumstances which led to impairment testing.

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

Response: None

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 in (a) the period of the acquisition and (b) any changes to those agreements for several years post-acquisition? Please explain.

Response: The Committee believes that the incremental costs of disclosing additional quantitative and qualitative information about the agreements underpinning material intangible assets would be insignificant. Depending on the nature of the information to be disclosed, such information is likely to be readily available.

Question 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.

Response: The Committee does not see any meaningful decision useful information provided by requiring disclosure of the changes in the carrying amount of goodwill. Reporting entities are required to disclose goodwill associated with material acquisitions, dispositions, and the amount of goodwill impairment losses, and accordingly, this information is currently provided in a disaggregated format.
Section 4: Comparability and Scope

**Question 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.

**Response:** The Committee does not believe the noncomparability in the accounting for goodwill and certain recognized intangible assets between PBE’s and private business entities and not-for-profit entities significantly reduces the usefulness of the financial information. While companies are able to identify amortization expense to adjust reported earnings accordingly to make the earnings statement more comparable between PBEs and private entities, there is a loss of information reported by private business entities who subsume intangibles into goodwill. See our response to Question 14 above.

**Question 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).

**Response:** The Committee does not support providing PBEs with an option on how to account for goodwill and intangibles or the method and frequency of impairment testing.

**Question 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 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

**Response:** Some members of the Committee believe comparability among all PBEs under GAAP is the most important source of comparability for purposes of driving consistency among PBEs.
The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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- Ashley Carboni, CPA
- Michael Couillard, CPA
- Matthew Denton, CPA
- Jason Eaves, CPA
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- Scott Lehman, CPA
- Melissa Lynch, CPA
- Reid Mitchell, CPA
- Jason Plourde, CPA
- Elizabeth Prossnitz, CPA
- Darshana Raigaga, CPA

- Grant Thornton LLP
- KPMG LLP
- Baker Tilly Virchow Krause LLP
- Sikich LLP
- Crowe LLP
- Ernst & Young LLP
- Crowe LLP
- Plante Moran, PLLC
- Wipfli LLP
- Grant Thornton LLP
- BDO USA LLP

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- Danielle Martin, CPA
- Jeffery Watson, CPA

- CDH, PC
- Porte Brown LLC
- Miller Cooper & Company Ltd

**Small:** (less than 40 professionals)
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- Brian Kot, CPA (Chair)

- Selden Fox, Ltd.
- Cray Kaiser Ltd CPAs

**Educators:**
- Mollie Adams, CPA
- John Hepp, CPA

- Bradley University
- University of Illinois at Urbana-Champaign

**Industry:**
- Jeffrey Ellis, CPA
- Michael Maffei, CPA
- Thomas Masterson, CPA
- Matthew Mitzen, CPA
- Lisa Sezonov, CPA
- Richard Tarapchak, CPA
- William Wang, CPA
- Daniel Wilfong, CPA

- FTI Consulting, Inc.
- GATX Corporation
- Medix
- CNA Financial Corp.
- Northern Trust
- Reynolds Group Holdings
- MAT Holdings, Inc.
- Sunset Transportation, Inc.

**Staff Representative:** Rafael Wiesenberg, CPA

- Illinois CPA Society