CFA Institute

67 Lombard Street
7th Floor
London EC3V 9LJ
United Kingdom

+44 (0) 20 7330 9500 tel
+44 (0) 20 7330 9501 fax
info@cfainstitute.org
www.cfainstitute.org

December 31, 2020

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London, UK E14 4HD

Re: Discussion Paper
Business Combinations – Disclosures, Goodwill and Impairment

Dear Mr. Hoogervorst:

CFA Institute appreciates the opportunity to comment on the International Accounting Standards Board's (IASB's) Discussion Paper on *Business Combinations – Disclosures, Goodwill and Impairment* (the Goodwill Discussion Paper, Goodwill DP, Discussion Paper or DP). CFA Institute[1] is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

In response to the Financial Accounting Standards Board's (FASB's) 2019 Invitation to Comment on *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, CFA Institute issued a comment letter (the "2019 FASB Goodwill ITC Comment Letter") providing our views on the Invitation to Comment. While a link to the 2019 FASB Goodwill ITC Comment Letter is provided above, we attach a copy of the letter at **Appendix B** because of the direct relevance of that document to the issues under consideration in the IASB's Discussion Paper.

Additionally, in November 2020 CFA Institute conducted a member survey seeking input on such issues. A final version of that survey will be issued shortly. Our responses to the IASB's Discussion Paper questions included herein are consistent with the survey findings.

[1] CFA Institute is a global, not-for-profit professional association of nearly 171,400 investment analysts, advisers, portfolio managers, and other investment professionals in 165 countries, of whom more than 164,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 154-member societies in 77 countries and territories.

OVERVIEW

Our responses to the specific questions in the Discussion Paper are included in **Appendix A**. Below is a summary of our views.

Retain Existing Impairment Approach, Improve Disclosures

As we note in response to Question 1 of the Consultation Paper, we concluded our 2019 FASB Goodwill ITC Comment Letter with this final thought:

> ***To our mind, improved disclosures – and a survey on the cost of impairment testing – would provide investors (those who pay for impairment testing) and standard setters with more decision-useful information in evaluating the way forward on this issue. The magnitude of goodwill balances warrants careful consideration of the impact of a switch to amortization.***

The aforementioned comment appears particularly appropriate a year later when responding to the IASB Discussion Paper which calls for retaining impairment but improving disclosures to investors. Investors are united in their interest in assessing the performance of the acquisitions that generate goodwill and intangible assets. Accordingly, we believe improving disclosures regarding the initial recognition and valuation of goodwill and intangibles and the related impairment testing would be the most useful first step. Investors are seeking objective, quantified and company-specific disclosures that permit users to reach their own conclusions about the success of acquisitions.

We believe that improved disclosures of performance of the acquisition relative to the criteria and statements made at acquisition should not result in substantial additional cost, as this information is something that not only investors want but that managements should already be reviewing and providing to their board of directors to assess the performance (value creation or destruction) of the acquisitions undertaken. If this information is not available, investors should rightly question management and the board decision-making process in executing and evaluating acquisitions. ***Simply put, the disclosure of management-defined, objective KPIs about the expected measures will allow an ongoing internal and external assessment of the success of specific acquisitions.***

IASB & FASB: Investors Are Clear, Global Convergence is Essential

Investors are clear that the FASB should be working with the IASB to maintain and achieve further convergence in the area of goodwill accounting, impairment testing, and related disclosures. Currently, the FASB's and IASB's (collectively, the Boards) standards regarding goodwill and impairment testing are broadly similar in that they both require goodwill to be capitalized and tested for impairment rather than amortized, although the specific mechanics of the goodwill impairment tests differ. Investors are in raging agreement that retaining international convergence in accounting for goodwill is of paramount importance. Both Boards have expended a large amount of energy in the past to achieve convergence on business combination accounting. It will not serve investors if one reporting regime were to require a capitalization and impairment only approach with improved disclosures (i.e. IASB approach) and another were to implement a capitalization and amortization, with impairment, approach (i.e. FASB approach). If the cost of impairment testing is the basis for the FASB's change, the FASB needs to explain to investors both their basis for this conclusion as well as why, under US GAAP, the cost is substantially higher than IFRS, where there have been fewer "simplifications" of impairment testing done to mitigate cost. It is a backwards step for financial reporting and financial markets if the Boards diverge on such a significant asset and accounting issue. In addition, we believe that improving and harmonizing disclosures in this area is an ideal area in which to achieve further international convergence. See Question 13.

Costly Impairment Testing: A Narrative Backed by No Empirical Evidence

As we noted in our 2019 FASB Goodwill ITC Comment Letter, and our response to Question 1 of the Consultation Paper, the narrative that the high cost of impairment testing is a valid basis for changing the accounting for goodwill has not been validated by any empirical analysis. To our knowledge, the FASB, and the IASB, have not gathered any hard data on the cost of impairment testing and performed any cost/benefit analysis of their proposed changes. Currently, the belief that the cost of impairment is onerous is only anecdotal. Identification and compilation of the costs should be relatively easy as the costs include internal management time, external specialist and auditor time all of which are relatively discrete and identifiable.

As we have highlighted to the FASB in 2019, the sheer magnitude of goodwill balances ($5.6 trillion on the books of all U.S. public companies and $3.3 trillion on the books of the S&P 500) warrants an empirical cost/benefit analysis – rather than simply an assumption that the cost exceeds the benefit. The FASB is set to schedule the write-off of 40-45% of the equity of the S&P 500. And while the IASB does not suggest a move to amortization, it does suggest simplification of impairment testing.

Given investors pay the cost of impairment testing, the Boards should gather such cost information and it should be made transparent so that investors – those paying for the impairment testing – are able to perform the cost/benefit analysis. We do not think such an important decision – as reverting to amortization – should be made without an explicit articulation of the cost – given this is the primary reason as to why impairment testing is being addressed again by the FASB and IASB. We also don't believe it meets standard setters' obligations to analyze the costs and benefits of standard-setting nor evidence that changes in accounting rules are improvements. Investors should be able to have the data to make a judgement for themselves.

In making the cost/benefit analysis, we think it is essential that the Boards recognize that – despite preparers having far more information and insight into the business – there is substantial empirical evidence that the write-off (impairment) of goodwill is reflected in the share price of a company by capital market participants prior to when the actual write-off occurs and is announced by company management. The Boards need to reconcile the preparer narrative that impairment testing is too costly when market participants seem capable of performing such analysis and making such determinations with less information. Overall, the Boards need to reconcile preparer narratives regarding the cost and complexity of impairment testing to the market's more timely – and more cost effective – recognition of impairments.

Initial Recognition of Goodwill: Goodwill Should Not be Combined with Other Intangible Assets

We do not support the IASB's suggestion to eliminate separate recognition and measurement, from goodwill, of "some" intangibles – as suggested by Question 12 – as we do not believe this improves the definition of goodwill nor recognizes the increasing importance of intangibles to investors. Further, it muddles the subsequent measurement (i.e. impairment or amortization) of these assets.

Rather, we believe the IASB should be considering disclosure of internally generated intangibles such that financial statements better reflect company valuations and provide investors with insight into the value-generating capabilities of the business. This would be an important first step in disclosing intangibles within financial statements and possibly, someday, measuring them within financial statements.

Presentation of Goodwill

As we note in our response to Question 8, we believe presentation of equity less goodwill is a useful illustration to investors of the magnitude of goodwill balances on the equity of a company. We highlight work we performed in our 2019 FASB Goodwill ITC Comment Letter (See Pages 19, 20, 28 and 39) that illustrate the impact of such presentation on companies in the S&P 500. In particular, we noted that approximately 25% of the 444 S&P 500 companies with goodwill ($997 billion of goodwill and $633 billion of equity) have negative equity if goodwill is netted against equity – a metric that we believe should be highlighted for investors.

Disclosures

Questions 2-5 in the Consultation Paper address the IASB's preliminary views on the disclosures they see as being a complement to existing impairment testing. As we note above, we support the direction of improving disclosures rather than moving away from impairment towards amortization. We would note the following:

1) *Disclosure Principles (Question 3)* – We support the disclosure principles when combined with specific disclosures as we believe this approach will provide the necessary information along with some basic principles for when every situation cannot be anticipated.

2) *Improving Disclosures is Important, But CODM Level is Too High (Question 2A &C)* – As we note in Question 2, we believe that the IASB's preliminary view – that disclosures regarding whether a company is meeting its performance objectives for acquisitions should be based on how the CODM monitors and measures such performance (Paragraphs 2.13–2.40 of the Discussion Paper) – is insufficient. In our work on segments, investors have been clear in telling us that the CODM is too high a level for disclosure. We believe the same would hold true for acquisition performance disclosures. For example, in a large group of companies, even very material acquisitions might be only monitored at a segment or divisional level rather than at the CODM level. We are also concerned that by basing the disclosures on what the CODM reviews, companies could easily circumvent required disclosures simply by not sharing the relevant information with the CODM.

   We would also observe that only segment disclosures use review by the CODM as the basis for making disclosures in financial statements. In our view, if the information is material to investors should be the standard, not review by the CODM, for disclosures.

CFA Institute

We agree that it would be helpful to add the objective "to evaluate the extent to which the key objectives of the business combination are being achieved" to the disclosure requirements. However, we do not believe that it necessarily follows from this that key objectives of a business combination are *only* those that are reviewed by the CODM.

In this regard, we find our recent review of COVID-19 disclosures and discussions by companies to be relevant. We have found that in situations when revenues collapse, or expenses do not move in line with revenues as expected, it turns out that company managements have access to much more information than was previously apparent, and are willing to make decisions and act on such information.

Thus, we strongly recommend that acquisition performance metrics be disclosed based on whatever objectives the company has set forth, regardless of whether they are reviewed by the CODM. We believe this will result in much more meaningful disclosures for investors. If companies are concerned about the volume of such disclosures, we would note that in general, these acquisitions are strategic choices and large amounts of capital deployed at a single time, and thus warrant comprehensive disclosure.

3) *The Disclosure Elements: Strategy & Objectives, and Whether Met, Are Relevant Disclosures Investors, Worry IASB Has Allowed Disclosure Escape Clauses (Question 2B)* – We support the need for management to disclose the strategic rationale and management's objective for an acquisition at the acquisition date and whether it is meeting such objectives in subsequent periods. Investors want to understand whether management's acquisitions are successful and value-generating rather than destructive to value.

   As we note in more detail in our response to Question 2 in **Appendix A**, we are concerned not only by the CODM standard as noted above but by the manner in which companies might game providing disclosures by asserting the CODM does not monitor the objectives, the CODM has stopped monitoring the objectives, or if management changes the metrics. We worry the IASB is providing a "disclosure escape" clause.

   Several comment letters have noted that there is a lack of understanding by investors regarding the objective of impairment testing. Investors do not understand the concept because it is generally not well disclosed or sufficiently explained in the financial statements. This is why better disclosure of both strategic objectives and the methods of impairment testing is needed.

4) *Integration of Businesses & Goodwill* – Also not well understood by investors, because of a lack of disclosure and explanation, is the degree of integration of the acquisition into the cash generating unit (CGU), or reporting unit, and the resulting impact on the goodwill impairment test. Investors do not have insight into the degree to which acquired versus existing cash flows are being used to support the value of the goodwill. They also do not have visibility, because of the lack of disclosure, into how impairment testing, in such integration situations, provides insight into the performance of acquisition – or the performance of the reporting unit as a whole. In other words, what is not communicated to investors is the point where impairment testing of the goodwill becomes impairment testing of the CGU, or reporting unit, rather than of the acquisition. In the longer-term, the impairment test may actually communicate the value of the CGU, or reporting unit, rather than

the value of goodwill alone. To our mind, this is something that not only investors want to know; boards, too, should want to have an understanding of this as they monitor post-deal performance.

Thus, while some commenters have argued that because many acquisitions are integrated into the existing business, disclosure of post-acquisition performance metrics is not feasible, we believe that this state of affairs calls for *more* disclosure rather than less. Investors, and boards, would be better served if management were to explain how the acquisition has been integrated, and how management is tracking performance of the integrated business. This should be an oversight, and not simply an accounting, concern.

5) *Onerous & Commercially Sensitive Disclosures Are Another False Narrative (Question 2D)* – As we illustrate in **Appendix A**, through the words of J.P. Morgan, the narrative that disclosures are onerous or commercially sensitive is a narrative as old as the advent of disclosures. The IASB's proposed disclosures provide important information regarding large expenditures of capital, which, due to their very magnitude, warrant discussion in the financial statements.

6) *Strategic Objectives as Forward Looking (Question 2E)* – As we note in **Appendix A**, the rationale that disclosures cannot be provided because they incorporate forward-looking information is another false narrative, given that the financial statements as a whole, as well as goodwill impairment testing in particular, already incorporate considerable amounts of forward-looking information. What are acquisitions themselves, if not a forward-looking view expressed by management?

7) *Pro forma Information (Question 5)* – We generally support pro forma information but the timing and contents of the provision of such information is important for it to be useful to investors. More specifically, pro forma information must be provided on a more consistent and a more-timely basis – such as in interim financial statements – to be decision-useful to investors.

8) *Synergies & Liabilities (Question 4)* – Additional information on synergies would be useful in understanding the objectives of the acquisition (Question 2) and in preparing the pro formas (Question 5). Additional detail on liabilities is always helpful to investors.

Impairment Testing

Questions 6, 9, 10 and 11 in the Consultation Paper address changes to impairment testing. Our view is that the problem is not with the impairment test, but with the application of the impairment test and a lack of transparency regarding the methods and assumptions associated with the performance of the impairment test, along with the moral hazard of management being responsible for the test without disclosure that will ensure market accountability. As such, we are skeptical as it relates to the "improvements" being proposed.

1) *Disclosures & Shielding (Question 6)* – We believe that disclosures will improve impairment testing as they provide a reference point and accountability for management and will provide standard setters with data upon which they can, in future periods, assess the quality of impairment testing. As it relates to shielding, we believe this is a term of accounting art which will not be familiar to investors. In reality, the issue is a lack of disclosure regarding the nature of the integration of the acquisition and the balance of revenues and profits from organic versus acquired businesses. Better disclosure upfront regarding integration plans and synergies and success toward accomplishing such plans will facilitate valuation of such assets.

2) *Quantitative Test* *(Question 9)* – We do not support removal of the annual quantitative test. Our survey results show that investors believe that impairments provide useful information but are routinely recognized too late by management. Making the quantitative test less frequent seems antithetical to improving impairment testing. **F*urther, it seems to continue the unsupported narrative that it is the cost and complexity of the impairment test that is problematic, rather than the fact that impairments are not recognized in a timely manner.***

3) *More Optimistic Cash Flows & Post Tax Cash Flows (Question 10)* – Regarding the Board's preliminary view to permit the inclusion of more optimistic cash flows such as those related to uncommitted restructurings or enhancing the assets performance, we would not be supportive of these changes if they were not a part of the original strategic objectives related to the acquisition, items disclosed as potential synergies, or items included in pro forma information. As it relates to post-tax versus pre-tax cash flows, we don't have preference to the method unless it results in different allocation or measurement of tax balances.

4) *Simplification (Question 11)* – As noted above, simplification is not the problem with impairment tests as such this does not seem to be a productive solution.

Amortization

In our 2019 FASB Goodwill ITC Comment Letter, attached at **Appendix B,** and in our response to Question 7 of the Consultation Paper, we explain in significant detail: a) why amortization is not an improvement in financial reporting, and b) how the FASB has not demonstrated that a movement to amortization would be an improvement in financial reporting. Investors see amortization as an administrative convenience being proposed because of untimely impairment recognition. In substance, all amortization accomplishes is to provide a mechanical accounting convention (cure) for poor impairment testing.

Amortization not only does not improve financial reporting – because it won't enable investors to distinguish between good and bad managers making acquisitions – it will have the effect of worsening financial reporting – because it will distort financial performance by improving financial metrics simply through the passage of time.

Amortization provides no value relevant information for investors.

As we described in our 2019 FASB Goodwill ITC Comment Letter, the only acceptable method of amortizing goodwill would be one that matches the amortization of goodwill with the expected cash flows associated with the acquisition.

****

If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy Advocacy
CFA Institute

CFA Institute

Appendix A

Below we provide responses to the specific questions in the Discussion Paper:

Question 1: Objective of Preliminary Views

Support IASB Preliminary View of Enhancing Disclosures Over Implementing Amortization – We noted the following in the final paragraph of our 2019 FASB Goodwill ITC Comment Letter:

> ***To our mind, improved disclosures – and a survey on the cost of impairment testing – would provide investors (those who pay for impairment testing) and standard setters with more decision-useful information in evaluating the way forward on this issue. The magnitude of goodwill balances warrants careful consideration of the impact of a switch to amortization.***

As such, we support the IASB's preliminary views to provide investors with more useful disclosures about the acquisitions companies make and not to move to an amortization model. That said, we do not support removing the mandatory quantitative impairment test. This would have the effect of worsening the already poorly done management impairment test and further delaying impairment recognition. Implementing amortization does not provide investors with any additional information content. Adding disclosures, by contrast, provides investors with information central to their primary objective – that being assessing management's success at acquisitive activities.

The Premise of the Need for A Change to Amortization is Based Upon an Unverified Narrative of Excessive Cost of Impairment Testing – As we note in the comment above – and in more detail in our 2019 FASB Goodwill ITC Comment Letter – we believe the FASB and IASB must complete a survey on the cost of impairment testing, as without a survey of the cost, the premise that the cost of impairment testing is too expensive is purely anecdotal. We highlighted to the FASB that in light of the fact that goodwill represents 40% of the equity of S&P 500 companies, we believe it is essential to rely on actual data regarding the cost of performing impairment testing rather than unsubstantiated objections, especially if cost is the primary driver of why impairment testing is being revisited by the Boards.

Identification and compilation of the costs should be relatively easy, as the costs of impairment testing are relatively discrete and identifiable and include internal management time, external specialist and auditor time.

Despite preparers having far more information and insight into the business, there is substantial empirical evidence that the write-off of goodwill is reflected in the share price of a company by capital market participants prior to when the actual write-off occurs and is announced by company management.

Accordingly, the Boards need to reconcile preparer narratives regarding the cost and complexity of impairment testing to the market's more timely – and more cost effective – recognition of impairments. The Boards should seek to understand the following:

- How can investors with less information than company management perform a more effective impairment test?
- Why isn't management taking impairment charges in a more timely manner?

- How could it be less costly for each investor in a company to perform an impairment test, rather than company management performing the impairment test – especially with its superior information?
- How can impairment testing be more expensive under US GAAP (thereby warranting a change to amortization) than IFRS, particularly given the simplifications granted by the FASB under US GAAP?

This Socratic exercise should be a paramount consideration to members of the Board as they investigate the need to simplify the impairment test. ***Overall, the Board needs to determine how the cost of impairment can be too high, given the market seems to perform such an analysis with less information.***

Question 2: Disclosures

A. *Disclosures Useful in Addressing Goodwill Issues* – As noted above, we agree that additional disclosure requirements will improve the issues identified and satisfy the investor's need for better information on the performance of acquisitions. Impairment is the result of poor acquisitions, or acquisitions that are inclusive of wasting assets, once management has taken the decision to recognize them. Disclosures facilitate investors making their own decisions – and in a more timely manner.

B. *Disclosure Elements* – As it relates to the six elements of disclosure, we would note the following:
   1) *Strategic Objectives at Acquisition* – We support the need for management to disclose the strategic rationale and management's objective for an acquisition at the acquisition date. As we note in our work on segments, investors broadly believe that the chief operating decision-maker (CODM) level of disclosure is too high and that more granular information is needed. (See excerpt below) We would expect that these disclosures would be quantitative and qualitative and align with discussions with investors providing financing or publicly disclosed statements made in touting the deal upon announcement.
   2) *Meeting Strategic Objectives* – We do not believe that what management monitors and measures in meeting the objectives should be different than what it provides the Board. The Board – given that acquisitions are strategic in nature – should want the level of detail that management is tracking, as there should be alignment between the board and management on these objectives.
   3) *Management (CODM) Does Not Monitor Acquisition* – It should be a rare case that management does not monitor an acquisition, but if it does not, we agree that this should be disclosed as it is a red flag and likely an indicator the deal was not successful.
   4) *Cease Disclosure When CODM Does Not Monitor* – It is likely that companies that do not want to make the required disclosures will simply say they don't meet the aggregation/disaggregation criteria of segments, and, hence, review by the CODM. For the aforementioned reasons, we think the level of monitoring should be at the level where the impairment is tested.
   5) *Cease Disclosure When CODM Does Not Monitor within Two Years* – We would agree that if the CODM does not monitor within two years of the acquisition, then this should be disclosed. We think, however, that this may simply result in fewer items reviewed by the CODM from the outset. A time period of five years seems more reasonable as most acquisitions take several years to be integrated. Within two years there are likely still integration efforts occurring.
   6) *Change to Monitoring Metrics* – We agree that if the metrics regarding measuring the success of the acquisition are changed, that fact and the reasons why – along with the new metrics – should

be disclosed along with why they are more representative. That said, it is likely a company when not wanting to make the disclosures will simply indicate the CODM no longer monitors – and use the level of aggregation/disaggregation as the reason for the change.

C. *CODM & Onerous Disclosures* – As we note in the preceding responses, investors have told us in our work on segments that the CODM is too a high a level for disclosure.

> *CODM*—We queried respondents on whether the current definition of chief operating decision maker was sufficient. Only 38.3% (Exhibit 11) thought no improvement was needed. The majority of respondents (61.7%) believed a change was necessary but differed in why or how a change was needed. Substantively, all improvements were related to lowering the level of the decision-making or tying it more directly to compensation.

The CODM approach might result in information on material business combinations not being provided because the CODM does not monitor the acquisition, and thus investors will not receive material information on acquisitions. Additionally, setting the disclosure threshold at the CODM level can easily be manipulated by companies that wish to reduce the level of disclosures.

We would also observe that only segment disclosures use review by the CODM as the basis for making disclosures in financial statements. In our view, if the information is material to investors should be the standard, not review by the CODM, for disclosures.

We are not concerned that the disclosures would be onerous or overload investors. These are strategic choices and large amounts of capital deployed at a single time, and thus, warrant comprehensive disclosure.

Additionally, if the IASB were to restrict disclosure to those metrics reviewed by the CODM such a disclosure requirement would create further divergence between IFRS and US GAAP, as neither standard currently requires disclosures linked to the CODM. ***Setting disclosure thresholds at the CODM level is, in our view, a dangerous precedent – likely to be borrowed in future standard-setting.***

Thus, we believe that the threshold at which disclosure would be required should be set at a lower level of management than the CODM – reporting unit or CGU.

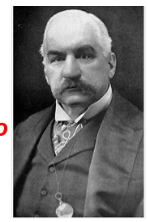
Finally, we believe that the IASB should require some minimum amount of information to be disclosed, even if it is not information provided to the CODM. While we are aware of the challenges in identifying the specific measures for subsequent performance that are suitable for all business combinations, we believe that the IASB should engage in outreach and fieldwork efforts to develop at a minimum a list of comprehensive examples. We believe this would greatly enhance consistency of disclosures, which would be useful for investors.

D. *Commercial Sensitivity of Disclosures* – This is one of the oldest excuses for not making disclosures. Note the following comments by J.P. Morgan and Benjamin Graham in the early 20th century, excerpted from CFA Institute's publication's *The Gold Standard* and *From Practice to Profession,* before the passage of U.S. securities laws. The narrative regarding commercial sensitivity reflects the century-old narrative by companies for not providing information.

FINANCIAL INFORMATION: PRIOR TO SECURITIES ACTS
THE STATUS & THE NARRATIVE

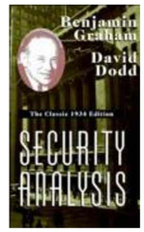
DEFENSE OF STATUS QUO

*J.P. Morgan famously lamented the coming of that day "**when all business will have to be done with glass pockets**."*



J. PIERPONT MORGAN

INVESTORS DETRIMENT



BENJAMIN GRAHAM

Withholding of data *– particularly of annual sales—**is usually justified on the ground that it might be used by competitors** or customers to the detriment of the company and therefore of its stockholders.... of **great benefit to them and of disadvantage to the general public.***

Investors, as the owners of the business, would be those suffering from any commercial sensitivity concerns or loss in value. The concern is that disclosure regarding the ability to meet strategic objectives of an acquisition would only reflect downside risk not upside risk. As with the disclosures being too costly, this is the standard narrative provided relative to disclosures; yet we have repeatedly seen that additional disclosures are welcomed by investors and ultimately the benefits to capital markets are seen to outweigh the costs.

E. *Strategic Objectives as Forward-Looking Information* – The notion that metrics related to strategic objectives associated with acquisitions would reflect forward-looking information that cannot be included in disclosures belies the notion that financial statements already incorporate all sorts of forward-looking information. Specifically, all the fair values assigned to the assets and liabilities measured within the financial statements related to the acquisition incorporate forward-looking information in their measurement. Further, the annual goodwill impairment assessment is entirely based upon fair value, and therefore forward-looking, information. Accordingly, irrespective of whether one believes the metrics incorporate forward-looking information or not – which they likely do not – the financial statements, especially the balances associated with the very acquisition being assessed, are replete with forward-looking information.

Question 3: Disclosure Principles
As a general rule, we support specific disclosures accompanied by disclosure principles to guide preparers in the preparation of disclosures as situations are unique and standard setters can make disclosures of all principles. We agree with the disclosure principles outline in the Consultation Paper.

Question 4: Synergies & Liabilities
We are supportive of the Board's preliminary view that it should develop proposals to require companies to disclose:

A. *Synergies* – Given synergies are widely discussed in press releases and other communications by management upon the announcement of acquisitions, we think it is entirely appropriate that such information be included as disclosures associated with the acquisition. They are key assumptions in the valuation of the deal. Preparers will argue these are projections, but in our view, they are assumptions and estimates about the deal and as relevant to the acquisition valuation as the assumptions embedded in the fair value of the acquired assets, particularly intangibles, and liabilities.

B. *Major Classes of Liabilities* – We support disclosing liabilities arising from financing activities and defined benefit pension liabilities separately, for each acquisition when material. However, we are not sure why these items have been specifically identified for separate disclosure, as we believe that existing IFRS guidance (such as in IFRS 3 *Business Combinations*, IAS 7 *Statement of Cash Flows* and IAS 19 *Employee Benefits*) already encourages companies to disclose all material balances. However, we believe this is a relatively minor clarification as opposed to a substantive improvement. What investors really want are disclosures regarding the measurement uncertainty and contingencies associated with valuation of such liabilities upon acquisition.

Question 5: Pro Forma Information
In a recent comment letter to the SEC on acquired businesses we provided some perspectives on pro forma information – specifically, that the timing of the provision of pro forma information in annual financial statements can be, in some instances, up to 18 months from the date the acquisition was completed. In the case of this Discussion Paper, unless the information is provided in interim financial statements, the information may be provided so late after the acquisition that it is not decision-useful to investors. The timing of the provision of the pro forma information should be incorporated into the decision-making process.

We agree that the Board should develop guidance on the basis of preparing the pro forma adjustments, significant pro forma adjustments themselves and the supporting disclosures. It would be helpful to reduce diversity and to ensure that comparable, useful and relevant information is provided on the nature of disclosures related to the assumptions included in the pro forma information.

As it relates to replacing the term "profit or loss" with "operating profit before acquisition-related transaction and integration costs" and including the "cash flows from operating activities of the acquired business after the acquisition date," we would not object to the inclusion of such information. If the term "profit or loss" is to be replaced with "operating profit before acquisition-related transaction and integration costs", we would suggest that this new term is properly defined, so that entities understand what information to provide, together with the reasons for this, to try to avoid the risk of diversity in practice that may arise through different interpretations of acquisition-related transaction and integration costs.

We do not understand why the proposal only requires disclosure of cash flows from operating activities, and not cash flows from investing (to understand the capital expenditures) and financing activities, which would also be useful to investors.

Question 6: Making Impairment Test More Effective
Investors believe that impairment testing and the resulting information is decision-useful when done properly. We do not believe the cause of impairment losses not being recognized on a timely basis is the use of overly optimistic estimates but of the moral hazard represented by the management preparing the estimates and performing the impairment test.

We believe there can be improvements related to the level of the impairment test and that disclosures would assist standard setters with making improvements in impairment testing. Presently, standard setters have no empirical evidence regarding how to improve impairment testing as all their evidence is anecdotal and based upon hearsay from preparers. Only the company preparing the impairment test can provide insight on the improvements needed because of the asymmetry of information. Said differently, management has all the relevant information. This is why improved disclosures are so important.

The term "shielding" has become a term of accounting art created by accountants working on these proposals at the FASB and IASB. Investors do not have an understanding of what is meant by this term. In essence, shielding results from an impairment test not being done at a sufficiently low level as well as organic, rather than acquired, profits producing revenues and profits that enable recovery of the goodwill from acquisitions because the acquisition has been aggregated into an existing reporting or cash generating unit. Accordingly, the Board could consider changing the existing impairment model in IAS

CFA Institute

36 to provide further guidance as to the level at which goodwill is allocated and tested in accordance with IAS 36.80, which would reduce shielding to a certain extent and would reduce the judgment currently seen in allocating goodwill to CGUs. That said, the major issue with high-quality impairment testing is management's failure to recognize impairments in a timely manner at an appropriate level of detail.

Question 7: Reintroducing Amortization

A. *Reintroduce Amortization* – In our 2019 FASB Goodwill ITC Comment Letter, we set forth our strong opposition to the reintroduction of amortization. Therein we highlight that some investors support amortization simply as a practical expedient to address the fact that amortization will reduce goodwill balances that have wrongly not yet been impaired. Our investor survey results support this. More fundamentally, investors find the information value of amortization to be zero. Amortization of goodwill will reduce equity and, because amortization will be added back to net income, not reduce income artificially increasing return on equity.

B. *Change in View Since 2004?* – We do not believe either the IASB nor FASB has made any substantive arguments in support of returning to the pre-2004 amortization approach. The Boards must demonstrate that a change in accounting principle will be an improvement in financial reporting. They have not done this. The FASB justifies its change based on the narrative that impairment testing is costly. The FASB, however, has not performed any analysis of the cost of impairment testing.

C. *Reintroduce Amortization – Solve Impairment Problem?* – We do not think that reintroducing amortization will resolve the problems with impairment unless the amortization method matches the impairment pattern of the underlying cash flows that generate the goodwill. Amortization will only schedule impairment losses not taken by management. That said, returning to amortization must be accompanied by impairment testing. Amortization alone cannot be an adequate method.

D. *Internally-Generated Goodwill* – Given that neither internally-generated goodwill nor other internally-generated intangibles are capitalized, they are, by definition, viewed differently by investors. That said, investors seek to determine the value of the enterprise and in doing so seek to identify the value of intangibles internally generated. CFA has long advocated for better disclosures of internally-generated intangibles to assist in this analysis.

E. *Amortization Add Back to Performance Measures* – As we say in our 2019 FASB Goodwill ITC Comment Letter, companies will add back amortization to arrive at EBITDA. In our comment letter to FASB, we describe the difference in the nature of the add back of goodwill and impairment and the meaning of such adjustments. See pages 4 and 31-32 of our 2019 FASB Goodwill ITC Comment Letter.

F. *Useful Life of Goodwill* – On page 28 of our 2019 FASB Goodwill ITC Comment Letter, we provide our views on this issue. Some investors believe goodwill solely represents the present value of future profits of the acquired enterprise and therefore, as the purchased profits emerge, goodwill should be reduced. Others, however, believe goodwill can include other intangibles that have an indefinite life. While amortization presumes all goodwill is a wasting asset, impairment provides the opportunity to reflect the finite or indefinite life of the goodwill asset. An impairment test will reflect the wasting nature of goodwill if it has a finite life, and unlike amortization, also allows recognition of the indefinite lived portion of goodwill.

Question 8: Equity Excluding Goodwill
We are supportive of presenting equity excluding goodwill. In our 2019 FASB Goodwill ITC Comment Letter, we undertook an exercise of subtracting goodwill from equity. We found that goodwill represented 40-45% of equity of the S&P 500 and that many companies actually have negative book value when goodwill is eliminated. Our analysis can be found on pages 19-22 of the 2019 FASB Goodwill ITC Comment Letter.

It would likely be most effective to disclose the amount on the face of the balance sheet.

Question 9: Removal of Quantitative Impairment Test
We are strongly opposed to the removal of the requirement to perform an annual quantitative test and replace it with the requirement to perform a quantitative impairment test only if there is an indication of impairment. The real issue is that quantitative tests are not done well; reducing their frequency will only ensure impairment tests are not improved. Preparers would be less experienced in performing the test, so it may not be done to the same level of quality. Additionally, the controls around the process, including around the data and inputs, would be less robust if they were seldom utilized. Disclosure of metrics and the resulting accountability should improve quantitative testing because it would provide benchmarks for measurement by management and investors against which to consider the success of the acquisition.

Question 10: Changes to Impairment Test
Inclusion of More Optimistic Cash Flows – As it relates to the Board seeking to change the impairment test to include cash flows related to uncommitted restructurings or enhancing the assets' performance, we would not be supportive of these changes if they were not a part of the strategic objectives related to the acquisition, items disclosed as potential synergies or items included in pro forma information.

The Board also seeks feedback on whether it should require more discipline in the preparation of estimated cash flows by: (a) setting a probability threshold to determine when these cash flows should be included—for example a 'more likely than not' threshold; or (b) requiring additional qualitative disclosures about the measurement uncertainty associated with estimates of the amount, timing and uncertainty of these particular cash flows. While we do not believe the former is needed, we strongly ***support additional qualitative and quantitative disclosures*** regarding measurement uncertainty of cash flows, as this is important information for investors as they develop their own assumptions regarding the value of an entity.

Post Tax Cash Flows and Discount Rate – We are indifferent regarding the Board's preliminary view to permit the use of post-tax cash flows and post-tax discount rates, as in our view, we would expect the use of post-tax cash flows and post-tax discount rates in principle to result in the same outcome as the use of pre-tax cash flows and pre-tax discount rates. As such, this change should not result in a loss of information compared to the current requirements.

However, we understand that there may be some complexity with respect to the apportionment or measurement of various tax items. We believe this issue is worth studying to determine whether additional guidance is needed, or whether it results in too much complexity such that it is not worth changing the current requirements.

Question 11: Simplification of Impairment Test
As noted above, the issue is not the complexity of the impairment test, but the moral hazard of management not wanting to recognize the impairment. Making the test less complicated continues the unsupported narrative that it is the cost and complexity of the impairment test that is problematic, rather than the fact that impairments are not recognized in a timely manner.

Question 12: Allow "Some" Intangibles to be Included in Goodwill
We are not supportive of the Board's preliminary view that "some intangibles" should be included in goodwill. First, it is unclear what type of intangibles are being referred to – those with finite lives, or indefinite-lived assets? Adding those with finite lives would be inconsistent with the existing model considering that goodwill is more of an indefinite-lived asset. Second, including "some intangibles" in goodwill belies and transforms the notion or definition of goodwill. In doing so, goodwill would be commingled with identifiable intangible assets with different characteristics, leading to a loss of information about those assets for both the company as well as for investors. As the Board correctly notes, for example, if identifiable intangible assets are included within goodwill and subsequently sold, what profit should a company recognize on sale?

As a general matter, investors want more information about intangible assets, not less. Companies routinely identify, or should identify, the reasons for which they are willing to pay a premium for a target, and often a significant portion is attributable to customer relationships, brands, and similar intangible assets. We believe that companies are capable of estimating the value of these assets and should continue to ascribe a separate value to them in the financial statements.

Our view does not change based upon reintroduction of amortization as amortization is an administrative convenience and does not add meaningful information to investment analysis. A suggestion that reintroducing amortization would change one's view of the aggregation of some intangibles suggests that amortization is simply a way to cure the balance sheet of meaningless assets.

Question 13: US GAAP and IFRS
As we note in our 2019 FASB Goodwill ITC Comment Letter, we believe US GAAP and IFRS should arrive at the same conclusion of improving disclosures and retaining goodwill impairment. Our survey results show our investor members are in raging agreement with the fact that US GAAP and IFRS should maintain convergence on the issue.

Question 14: Other Comments
Please review the entirety of the FASB Goodwill ITC Comment Letter for a complete analysis of our position.

Appendix B

CFA Institute Comment Letter
Financial Accounting Standards Board
2019 Invitation to Comment
Identifiable Intangible Assets and Subsequent Accounting for Goodwill

CFA Institute

292 Madison Ave
2nd Floor
New York, NY
10017-6323 USA

+1 (212) 754 8012 tel
+1 (212) 756 7730 fax
info@cfainstitute.org
www.cfainstitute.org

January 13, 2020

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

Re: Invitation to Comment (ITC)
Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Dear Mr. Kuhaneck:

CFA Institute appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) Invitation to Comment on *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (the Goodwill Invitation to Comment, Goodwill ITC, Invitation to Comment or ITC). CFA Institute[1] is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the Corporate Disclosure Policy Council ("CDPC").[2]

1 CFA Institute is a global, not-for-profit professional association of nearly 171,400 investment analysts, advisers, portfolio managers, and other investment professionals in 165 countries, of whom more than 164,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 154-member societies in 77 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

EXECUTIVE SUMMARY

Contextualizing the Size of the Goodwill Debate – The Goodwill Invitation to Comment has as its premise[3] that the cost of performing the goodwill impairment test exceeds the benefit and that a change is needed. The FASB has not, however, completed an empirical analysis of the cost of performing impairment tests – something that should be relatively straightforward as the costs are discrete and measurable. Further, the FASB has not considered the magnitude of the goodwill balances they would likely put on a schedule to amortize over a period of ten years – similar to the method required for private companies to which the discussion paper is heavily anchored.

A decision by the FASB to adopt private company accounting for goodwill would result in the write-off (amortization) over ten years of $5.6 trillion of assets on the books of U.S. public companies. See the extract from Table 1 below.

GOODWILL
ALL PUBLIC COMPANIES & S&P 500 COMPANIES
2018
($'s in Trillions)

	All Public Companies						S&P 500					
	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	6,449	$ 5.558	$ 17.580	$ 95.446	31.62%	5.82%	499	$ 3.251	$ 7.968	$ 35.037	40.80%	9.28%

	All Public Companies with Goodwill						S&P 500 Companies with Goodwill					
	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	3,196	$ 5.558	$ 13.734	$ 72.620	40.47%	7.65%	444	$ 3.251	$ 7.217	$ 33.037	45.05%	9.84%

Source: Calcbench

Goodwill amounts to 6% of all public company assets and 8% of the assets of public companies with goodwill. Goodwill represents 32% and 40%, respectively, of the equity of such public companies. More staggering is the effect this would have on S&P 500 companies. With $3.3 trillion in goodwill, the S&P 500 represent nearly 60% of the goodwill of all U.S. public companies, though S&P 500 companies represent only 8% of U.S. public companies and 37% of the assets of U.S. public companies. Goodwill represents 10% of the assets and 45% of the equity of S&P 500 companies with goodwill.

Adopting the private company approach to goodwill amortization would schedule the write-off (amortization) of a substantial portion of the assets and equity of U.S. public companies and reduce profits of the S&P 500 by $330 billion ($560 billion for all U.S. public companies) for ten years. Because goodwill impairments are not tagged separately from all other asset type impairments, it is not possible to ascertain precisely the resulting incremental amortization impact. That said, in 2018, asset impairment charges for all public companies were $158 billion – up from $108 billion

3 On Page 8 of the Goodwill Invitation to Comment, the FASB articulates the following assumption in the preparation of the Invitation to Comment:

This ITC seeks feedback on whether a change is warranted. ***The remainder of this ITC assumes that the cost of the present accounting model exceeds the benefit and that a change is warranted****.*

in 2017 and $104 billion in 2016 – due significantly to the $23 billion impairment at GE. At a current impairment amount of approximately $100-$150 billion, it would take substantially more the 10 years to write-off existing goodwill. It would be an annual increase of $400-$450 billion in amortization and a similar decrease in profits. The growth in goodwill from 2013 to 2018 highlights that a change to amortization would result in a substantial reduction in assets and equity as impairments are not as high as will be amortization.

We do not believe the Invitation to Comment properly contextualizes the magnitude and implications of a switch to amortization that the Invitation to Comment appears to promote as more efficient than impairment testing.

The Detrimental Impact of Private Company Standards – We are very concerned that the Financial Accounting Foundation's (FAF's) decision to establish the Private Company Council (PCC) in 2012 – and allow it to set its own agenda, independent of the FASB – has resulted in the back-door standard setting we warned of at that time. The liberal reference to the goodwill accounting for private companies in the Invitation to Comment makes it clear the FASB is anchoring the ITC and its underlying assumption that goodwill impairment testing is not cost beneficial to the private company standard-setting process. Investors are now in a position of defending why lower quality private company standards are appropriate for the public market.

The Push to Revisit Goodwill Accounting – As we set forth in more detail below, the political pressure applied to the International Accounting Standards Board (IASB) in the wake of high profile failures (e.g. Carillion) in the UK that inaccurately point to goodwill as a basis for such failures followed by significant goodwill impairments in the U.S. (e.g. GE and Kraft Heinz) have been used as political fuel to elevate this issue to the top of the FASB's agenda – even prior to the IASB seeking consultation on the issue. We think the fallacy of the argument in the UK and the politically appealing nature of applying the private company approach in the U.S. has resulted in the FASB's undertaking this issue without consideration of the analytical and economic consequence of this decision as we outline elsewhere herein. Further, the FASB has not justified the change in the conceptual definition of goodwill (i.e. the presumption that goodwill is a wasting asset if amortization is adopted) nor the flaws in the conceptual logic supporting its previous decision-making/standard-setting that established impairment testing. As investors allocate capital globally, different accounting for goodwill under U.S. GAAP and International Financial Reporting Standards (IFRS) would be an unsatisfactory result.

A Backward Move in Relevance of Financial Reporting – We see this Goodwill ITC as a troubling signal. In a world where intangibles are becoming even more important to the economic value of U.S. public companies and where historical transactions can increasingly be accounted for and audited via technology, the FASB appears to support a reversion to a time where backward looking rote processes such as amortization are the future. For investors, this will reduce the relevance and value of financial statements and the accounting and auditing professions that support their production. It is the ability of accounting and auditing professionals to evaluate and audit estimates and judgements, such as impairment, that will drive the value of these professions in the future where more historical backward-looking information will be audited by technology. An assumption that such evaluations are too complicated, time consuming or costly for such professionals has a significant bearing on their relevance. We believe the FASB needs to consider the broader strategic signal of returning to the accounting of 20 years ago.

Investors Are Making Impairment Assessments, So Too Should Management – The FASB must also challenge the narrative that the accounting and auditing profession find the performance of impairment testing too costly or too challenging when there is empirical evidence that shows that investors – with substantially less information than company management – make impairment decisions in a more timely manner.

Timeliness of Impairment Recognition is the Real Issue – In our view, the real issue is the timeliness of impairment recognition. It is not the cost of impairment testing or the conceptual basis for why impairment is better for financial statement reporting purposes that is the issue to be addressed by the FASB. When impairment is taken it provides important signalling to investors regarding whether management's acquisitive activities were successful. Impairment testing done properly provides forward-looking information to both the company and investors and gives recognition to both the finite and indefinite elements of goodwill.

The FASB's design and approach to impairment testing is also an issue. Because disclosures on impairment testing are generally sparse, qualitative and boilerplate, the reporting unit concept and its implications are not clearly understood by investors. The commingling of acquired cash flows with organically generated cash flows is not something readily evident to investors. Investors clearly understand that the separate nature of the acquired business – especially one that is successfully integrated – makes the ability to perform the goodwill impairment analysis more challenging. That said, we believe that improved disclosures of performance of the acquisition relative to the criteria and statements made at acquisition are something that not only investors want but that the investee board of directors should be doing to evaluate management. Accordingly, the notion that impairment testing is challenging also raises concerns for investors regarding whether boards are performing the necessary oversight post acquisition. Anecdotally, we have heard that impairment testing has added rigor and discipline to the acquisition process within companies – a benefit that is not articulated in the Goodwill ITC. Amortization, unlike impairment, cannot provide this information or discipline.

Amortization is Not Decision-useful – As we explain below, amortization will lead to the proliferation of non-GAAP measures. Our quantitative analysis shows the significance that amortization will have on the earnings of U.S. public companies. Accordingly, there is little doubt that every company will add back the amortization of goodwill. This is, in our view, an indication that the amortization of goodwill will not be an improvement in financial reporting in the U.S.

Some argue that impairment charges are also added back to net income to arrive at a non-GAAP measure of profit, and that because of this, they too are not value relevant or decision-useful. There is, however, an important distinction. The add back of amortization will be done each period – highlighting that it is not an unusual item, just an un-useful item. Impairment, on the other hand, is done periodically when impairment occurs. Further, the add-back of impairment, similar to the add back of amortization, is done by investors to provide a proxy of cash flow from earnings for purposes of the modelling of cash flows. That does not mean they have equivalent information content. They both are labelled non-cash charges, but amortization is a scheduled non-cash charge that has no information content because of its rote/scheduled nature whereas impairment charges occur periodically and represent an indication of the change in value of the asset to which the impairment test was applied.

As we highlight below, amortization also provides no ability to distinguish between good and bad management as it relates to acquisitions as the income statement performance will be identical. Further, amortization actually distorts performance by improving trends in profitability ratios such as ROE and ROA by the simple operation of time as equity and assets will decrease with amortization.

Disclosure Improvement is a Necessary First Step – Investors are united in their interest in assessing the performance of the acquisitions that generate goodwill. Accordingly, we believe improving disclosures regarding the initial recognition and valuation of goodwill and intangibles and the related impairment testing would be the most useful first step before any changes are made to the recognition or impairment of intangibles, including goodwill. We believe the FASB should be working with the IASB to craft improved disclosures not only because we believe this is the appropriate way forward, but because maintaining global convergence is essential.

We assess the information value of amortization to be zero as it is an accounting rather than economic convention, and as such, is not relevant to valuation. If the FASB decides that a zero-information amortization approach should be adopted, we would recommend this be combined with the addition of a range of objective, quantified and company-specific disclosures that permits users to reach their own conclusions about acquisitions. Immediate write-off of goodwill is also an option we support over the amortization approach given amortization will constantly need to be adjusted from any analysis and will distort trends.

Simply, investors would like similar information to that being provided to investee company boards to make their own assessments. Managements should be providing their board of directors with assessments of the performance (value creation or destruction) of the acquisitions undertaken (i.e. especially since they now appear to be one of the most prevalent critical audit matters). As such, there should not be substantial additional cost with providing this information.

FASB Must Step Back & Evaluate Economic Impact Relative to Cost of Impairment Testing – To our mind, improved disclosures – and a survey on the cost of impairment testing – would provide investors (those who pay for impairment testing) and standard setters with more decision-useful information in evaluating the way forward on this issue. The magnitude of goodwill balances warrants careful consideration of the impact of a switch to amortization.

OVERARCHING CONSIDERATIONS

The Current Environment & the Call to Debate Goodwill Accounting

In our comment letters[4] to UK regulators regarding audit market reform in the United Kingdom, we have provided commentary regarding the media attention given to the accounting for goodwill and the inappropriate conflation of failures such as Carillion to the delayed impairment of goodwill. Highlighted in the excerpt below are our views.

> ***CURRENT ENVIRONMENT: PERCEPTION VS. REALITY***
>
> Recent business failures in the UK and the related media attention have, again, raised the question of audit quality. There has been much in the press that has inflamed the reaction of many stakeholders (e.g. investors, politicians, pension trustees, and the broader public) We certainly don't disagree that such business failures are problematic and create significant consequences for not only investors but other stakeholders to an organization. While extensively reported upon by the UK media, there is much reaction, but not significant analysis of the causes of such business failures and the degree to which audit failures, aggressive accounting, fraud or market conditions that resulted in liquidity issues contributed to the lack of timely recognition of such business failures.
>
> Audits do not necessarily prevent business failures as business failures stem from a lack of cash resulting from liquidity issues that can manifest quickly. Additionally, audit failures are not necessarily indicative of underlying business issues. There is much in the press that seems to inappropriately conflate accounting, auditing and business failures***. For example, the accounting for goodwill has drawn the attention of media outlets such as the Financial Times and Economist. The write-off of goodwill does not create business failures, business failures create the write-off of goodwill. While there certainly can be more timely recognition of such impairments, amortization of goodwill – as some of the articles suggest – will not resolve these business failures. Amortization of goodwill will only artificially improve ratios such as return on assets over the amortization period. Sophisticated investors (i.e. price makers) generally write-off goodwill long before management, understanding the moral hazard of management's assessment. The cash related to the generation of goodwill is long gone. We disagree with the notion, that some managements like to communicate, when experiencing a write-off, that goodwill is a non-cash write-off. Rather, it is recognition, and communication, that the cash previously exchanged was not well spent. We highlight the issue of goodwill not to debate the merits of the accounting for goodwill, but to highlight the media's flawed analysis of many of the accounting, auditing and business issues***. In a similar vein, some have used this moment as an opportunity to reignite the debate regarding fair value accounting. This is a red herring. Financial statements are replete with estimates – even the accrual of payables is an estimate. To suggest the financial statements be stripped of estimates such as fair value will have the effect of making the financial statements substantially less meaningful to investors. Financial statements that are simply a compilation of historical transactions offer little value to investors in considering the future prospects of the entity. They also – particularly in an age of technological disruption where there is discussion of the ability to audit 100% of historical transactions – would leave little value for the auditors to provide to investors in the information value chain. That said, auditors need to be able to effectively challenge management's estimates and to communicate in the audit report the uncertainty in such estimates and the procedures they performed to gain reasonable assurance over them. This is what investors want. It is where the value of an audit is derived in the eyes of investors. The future of the audit profession is inextricably linked with the profession's ability to provide such assurance as historical transactions will – in the near future – be easily auditable by machines.
>
> Further, the Audit Market Study rightly references an expectations gap by the public regarding the nature of the auditors' responsibilities (e.g. responsibilities regarding fraud). This is something auditors and regulators need to better communicate to address the media distortion.
>
> While we recognize there is much to do to improve audit quality, regulators must be cautious to clearly define the issues and remedies. The remedies must address the root causes, and the responses must not be disproportionate given the sometimes-flawed analysis of the issues by the media and politicians. Said differently, blunt instrument regulations may not be the remedy to nuanced and complicated issues that gave rise to the business failures that have put the auditing profession squarely in the sights of politicians, regulators and audit. The current perception should not drive the reality of the reforms truly necessary to improve audit quality.

---

[4] Comment letters to the UK Competition and Markets Authority and the Brydon Review, respectively, are as follows:
https://www.cfainstitute.org/-/media/documents/comment-letter/2015-2019/20190205.ashx
https://www.cfainstitute.org/-/media/documents/comment-letter/2015-2019/20190816.ashx

Media attention to the issue of goodwill in the UK increased political pressure on the International Accounting Standards Board to reconsider, beginning in 2018, the issue of goodwill amortization, rather than impairment, under IFRS. Simultaneously, a significant write-off of goodwill by GE, *GE's $23 billion Write-down Stems from a Bad Bet on Fossil Fuels* and *GE's $23bn Write-down is a Case of Goodwill Gone Bad* in October 2018 followed by the Kraft Heinz goodwill write down, *Kraft Heinz Plunges after $15 Billion Writedown, Dividend Cut and SEC Probe* and *Kraft Heinz Goodwill Charge Tops Consumer Staples Record*, appears to have created an opportunity for certain stakeholders to request the FASB address the accounting for goodwill[5] for U.S. Generally Accepted Accounting Standards (US GAAP). ***Delayed write-downs by poor management at several high-profile companies, or in connection with high-profile corporate failures, should not be seen as wide spread evidence of the need to replace impairment with amortization of goodwill.*** Amortization of goodwill, and certainly amortization without impairment, would not have cured what ills these acquisitions – especially given they failed rather quickly. Rather, one could argue the impairment test facilitated or forced recognition that the companies overpaid for these acquisitions. For that reason, we do not believe these examples should be used as the basis by some stakeholders to further reduce the economic relevance and meaningfulness of financial statements.

We believe the IASB and FASB must be resolute in the need for financial statements to provide economically relevant information. Delayed recognition of impairment is, in our view, the problem that needs to be addressed. We do not believe that amortization is the best response to this problem. And, as we note later in the discussion of costs, we believe the FASB needs to validate empirically the stated assumption underlying the ITC that the cost of impairment testing exceeds the benefit. An empirical analysis of the costs of performing impairment tests is needed rather than simply accepting this assumption.

FASB (US GAAP) and IASB (IFRS):
Global Consistency in Timing and Outcomes is Essential

While the political pressure to address accounting for goodwill was earlier and more intense for IFRS, the FASB has placed the topic on its agenda and issued this Invitation to Comment before the IASB has published a document for public commentary. The IASB's document is expected in early 2020.

Unfortunately, the deliberation in the U.S. appears heavily driven by taking the opportunity presented by these high-profile write downs to reduce the cost and time associated with completing impairment testing rather than increasing the efficacy and timeliness of impairment testing and the value relevance of financial statements. Both the IASB and FASB (the Boards) need to keep investors and the relevance of financial statements as their foremost consideration. The Boards need to consider the opportunity cost to investors of the loss of value relevant information that comes with the decision to prioritize amortization of goodwill over the decision to improve the execution of goodwill impairment testing.

Because investors invest globally, US GAAP and IFRS should remain converged on the issues addressed in the Invitation to Comment. Further, the timetable for deliberation should be consistent. Investors do not have the time or resources to monitor two projects with different

[5] In the United States the existence of amortization of goodwill for private companies was a force multiplier in this debate.

time tables and potentially different outcomes. Investors needs are globally consistent. Further, the global magnitude of the issue under consideration must be understood and contextualized before any decision is made. We attempt to size the magnitude of the issue in the U.S. as part of this comment letter in the pages that follow. The issue is equally significant globally.

Private vs. Public Company Accounting:
Our Concerns Regarding Back-Door Agenda Setting Appear Validated

Private Company Accounting Standards: Lower Quality Reporting

CFA Institute has long supported and advocated for one set of high-quality financial reporting standards for both public and private companies as we believe there should be no distinction in accounting based on the size or public float of companies. High-quality financial reporting should serve the needs of all investors who provide capital to a company and bear risk as a result – including the various classes of creditors as well as equity owners whether public or private. In a 2015 comment letter to the FASB Trustees at the Financial Accounting Foundation, we highlighted our investor survey results and concerns with the creation of separate private company accounting standards. We noted the following:

> The survey findings substantiate our previously articulated investor concerns regarding the creation of differential standards for private companies. Investors aren't supportive of the creation of private company standards ***because it increases complexity, decreases comparability, results in the loss of information which cannot be remediated by access to management, has the potential to reduce the economic usefulness of information based upon the legal structure of the organization (private vs. public) irrespective of the complexity of the transaction or the size of the organization, and is likely to increase the cost of capital because of the perceived lower quality of private company standards and the lack of disclosure of the private company options elected.*** We would observe that each of these issues are inconsistent with the objectives of high quality accounting standards.

Private Company Accounting Standards: Back-Door Mechanism for Public Companies

In the same letter, we highlighted, as excerpted below, the impact private company accounting had already had on impairment testing and that it could be used to further reduce the quality of reporting by public companies.

> Impact on Public Company GAAP – ***We highlighted our concern that private company alternatives would be used as a back-door agenda setting mechanism to alter the reporting requirements for public companies.*** We note this has occurred in the context of impairment of intangible assets.

Private Market Changes Necessitate Reconsideration of Private Company Council

One of the principal reasons the FASB undertook an initiative to create separate accounting for private companies was the belief that private investors have greater access to management and can obtain necessary information from management more readily. We did not support this reasoning at the time – as well as other elements of the decision-making that led to creation of the Private Company Council. We believe the recent failed initial public offering of the We Company highlights the fallacy that private company investors have more information because they have greater access to management and need less information in financial statements or less timely information (i.e. due to, for example, delayed implementation of accounting standards). In our view, it was the need to adopt the new leasing standard between the last funding round and the public offering of the We Company that highlighted the extensive mismatch in the duration of lessee and lessor arrangements at We Company. The improved information exchange was precipitated by the public market accounting for leases (i.e. that required adoption earlier than for private companies) that highlighted the extensive long-term liabilities and the lack of long-term receivables.

We would also note, the private market has substantially changed since the advent of the Private Company Council. The FAF should consider again the assumptions regarding the decision to establish the PCC and allow separate private company standards. Changes in the structure and size of private markets call into question – as we highlight with the We Company example – the assumptions that were the basis for lower quality accounting standards for private market companies.

Private Company Agenda Setting:
FASB in Position of Defending Why Private Standards Are Not Appropriate for Public Companies
The extensive anchoring of this Invitation to Comment to private company accounting is especially troubling because of the ability of the PCC to set its owns agenda and make decisions which then become precedents for the FASB. Because of this, investors are faced with rebutting the presumption that private company standards are a valid reference point for the needs of public market investors. We believe the FAF should not only consider again the assumptions regarding the decision to establish the PCC and allow separate private company standards but the implications of allowing the PCC to establish its own agenda setting. We believe this puts the FASB in a posture of having to defend why changes to private company accounting are not appropriate for public companies. It is our view that the FAF's decision to allow the PCC to establish its own agenda is having negative consequences for investors.

Private Company Accounting Standards: Negative Implications for Public Investors
For all the reasons stated above, the ITC seems to validate our concern that lower quality private company standards would be a back-door to the weakening of public company accounting standards. The extensive anchoring of this Invitation to Comment to the private company accounting for goodwill shows that investors are now in a position of defending why such standards are not appropriate for public companies.

The Impact of Moving to a Private Company Approach: A $5.6 Trillion Write-off Over Ten Years

As we further describe in the section that follows, the Invitation to Comment assumes the cost/benefit analysis supports a change to an amortization model and would therefore be cost/beneficial to the U.S. economy. Our view is that the ITC does not appropriately consider the magnitude of such a decision on U.S. public companies. We provide that context on the pages that follow.

It is important, in our view, to contextualize the impact of a change in the accounting for goodwill from an impairment model for public companies to a ten-year amortization model as allowed for private companies – as extensively referenced in the Invitation to Comment.

CFA Institute, using data from Calcbench, gathered the amount of goodwill recognized in the years 2013 to 2018 by all U.S. public companies and companies comprising the S&P 500. For this same time period, and same population of companies, we also gathered the number of entities as well as total equity and total asset balances. The aforementioned data was gathered or computed for all companies in the respective populations. We then extracted and did the same analysis for only those public companies and S&P 500 companies with goodwill. The data and computations are provided in **Table 1** which follows.

Table 1

GOODWILL
ALL PUBLIC COMPANIES & S&P 500 COMPANIES
2013 to 2018
($'s in Trillions)

All Public Companies

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	6,449	$ 5.558	$ 17.580	$ 95.446	31.62%	5.82%
2017	6,947	$ 5.416	$ 17.678	$ 96.413	30.64%	5.62%
2016	7,300	$ 4.916	$ 16.294	$ 87.091	30.17%	5.64%
2015	7,517	$ 4.049	$ 14.899	$ 71.976	27.18%	5.63%
2014	7,608	$ 3.527	$ 11.638	$ 59.403	30.31%	5.94%
2013	7,812	$ 3.342	$ 11.568	$ 57.866	28.89%	5.78%

S&P 500

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	499	$ 3.251	$ 7.968	$ 35.037	40.80%	9.28%
2017	499	$ 3.048	$ 7.756	$ 34.170	39.30%	8.92%
2016	499	$ 2.736	$ 7.163	$ 32.631	38.20%	8.38%
2015	497	$ 2.442	$ 6.903	$ 31.035	35.38%	7.87%
2014	496	$ 2.164	$ 6.772	$ 30.534	31.96%	7.09%
2013	494	$ 2.075	$ 6.734	$ 29.403	30.81%	7.06%

S&P 500/All Public Companies

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	8%	58%	45%	37%	129%	159%
2017	7%	56%	44%	35%	128%	159%
2016	7%	56%	44%	37%	127%	149%
2015	7%	60%	46%	43%	130%	140%
2014	7%	61%	58%	51%	105%	119%
2013	6%	62%	58%	51%	107%	122%

All Public Companies with Goodwill

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	3,196	$ 5.558	$ 13.734	$ 72.620	40.47%	7.65%
2017	3,339	$ 5.416	$ 13.981	$ 73.925	38.74%	7.33%
2016	3,391	$ 4.916	$ 12.693	$ 64.058	38.73%	7.67%
2015	3,385	$ 4.049	$ 10.461	$ 50.206	38.71%	8.06%
2014	3,413	$ 3.527	$ 9.633	$ 46.191	36.61%	7.64%
2013	3,352	$ 3.342	$ 9.628	$ 45.057	34.71%	7.42%

S&P 500 Companies with Goodwill

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	444	$ 3.251	$ 7.217	$ 33.037	45.05%	9.84%
2017	442	$ 3.048	$ 7.119	$ 32.563	42.82%	9.36%
2016	439	$ 2.736	$ 6.558	$ 31.050	41.72%	8.81%
2015	438	$ 2.442	$ 6.322	$ 29.525	38.63%	8.27%
2014	431	$ 2.164	$ 6.109	$ 28.707	35.42%	7.54%
2013	431	$ 2.075	$ 6.109	$ 27.686	33.97%	7.49%

S&P 500/All Public Companies with Goodwill

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	14%	58%	53%	45%	111%	129%
2017	13%	56%	51%	44%	111%	128%
2016	13%	56%	52%	48%	108%	115%
2015	13%	60%	60%	59%	100%	103%
2014	13%	61%	63%	62%	97%	99%
2013	13%	62%	63%	61%	98%	101%

Difference (All Public Companies without Goodwill)

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	3,253	$ -	$ 3.846	$ 22.826	-	-
2017	3,608	$ -	$ 3.697	$ 22.488	-	-
2016	3,909	$ -	$ 3.601	$ 23.033	-	-
2015	4,132	$ -	$ 4.438	$ 21.770	-	-
2014	4,195	$ -	$ 2.005	$ 13.212	-	-
2013	4,460	$ -	$ 1.940	$ 12.809	-	-

Note: Two numbers (one in 2014 and one in 2015) were adjusted because of data errors (currency & tagging) made by reporting companies.

Source: Calcbench

Difference (S&P 500 Companies without Goodwill)

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	55	$ -	$ 0.751	$ 2.000	-	-
2017	57	$ -	$ 0.637	$ 1.607	-	-
2016	60	$ -	$ 0.605	$ 1.581	-	-
2015	59	$ -	$ 0.581	$ 1.510	-	-
2014	65	$ -	$ 0.663	$ 1.827	-	-
2013	63	$ -	$ 0.625	$ 1.717	-	-

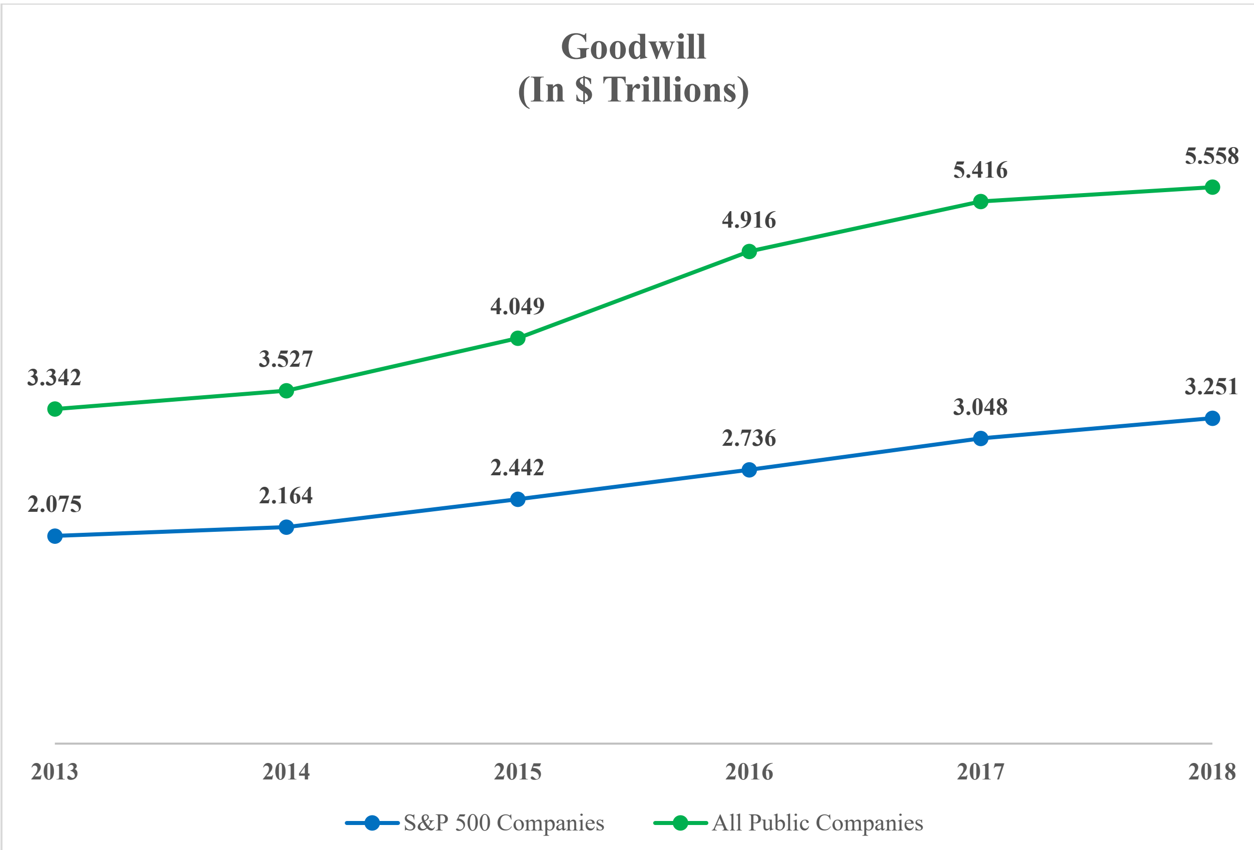
Note: This is the current S&P 500 looking backward over the period 2013 to 2018. The number of firms may be different than 500 because the S&P 500 count differs from 500 and companies move in and out of the index. This population of S&P 500 is sufficiently representative of the points made in this letter.

Difference (S&P 500/All Public Companies without Goodwill)

	# Companies	Goodwill	Equity	Assets	G/W Equity	G/W Assets
2018	2%	-	20%	9%	-	-
2017	2%	-	17%	7%	-	-
2016	2%	-	17%	7%	-	-
2015	1%	-	13%	7%	-	-
2014	2%	-	33%	14%	-	-
2013	1%	-	32%	13%	-	-

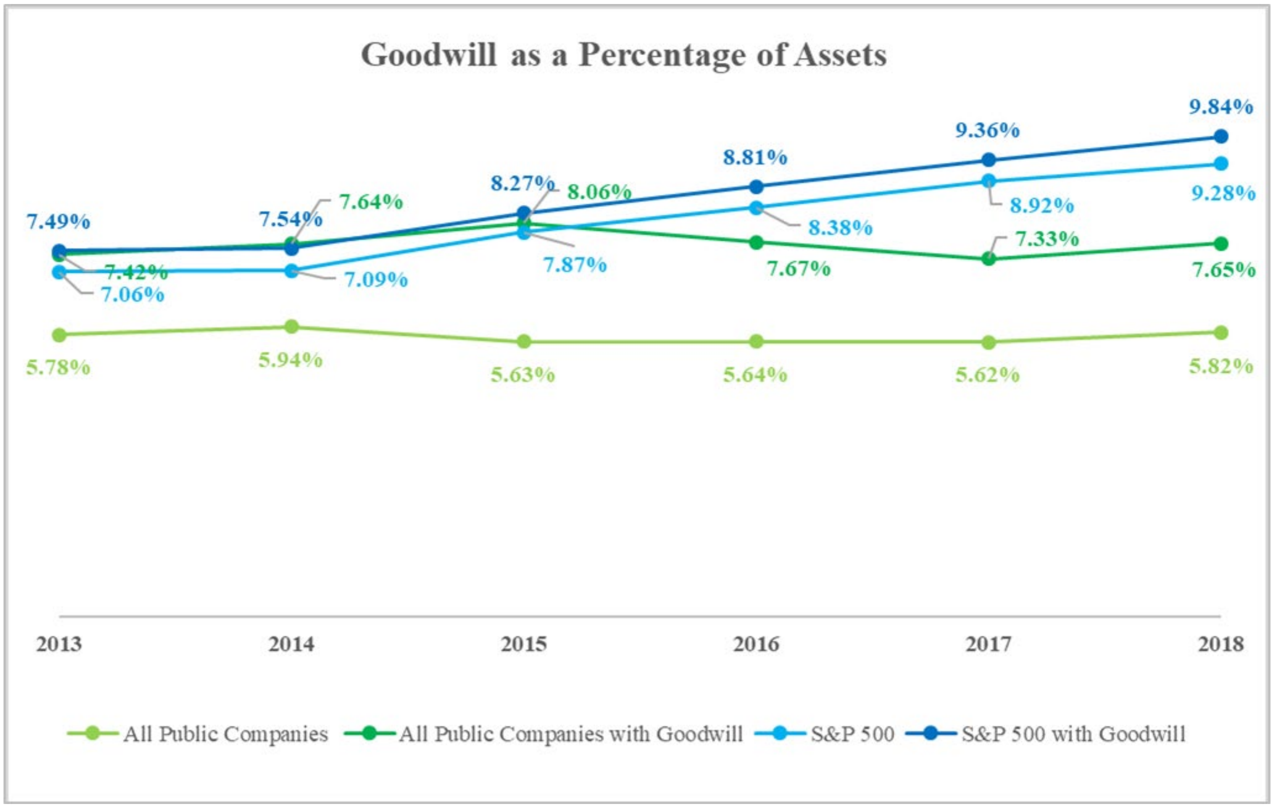
Charts 1, 2 and 3 illustrate the amount of goodwill, goodwill as a percentage of equity and goodwill as a percentage of assets, respectively, over the period from 2013 to 2018 as shown in **Table 1**.

Chart 1



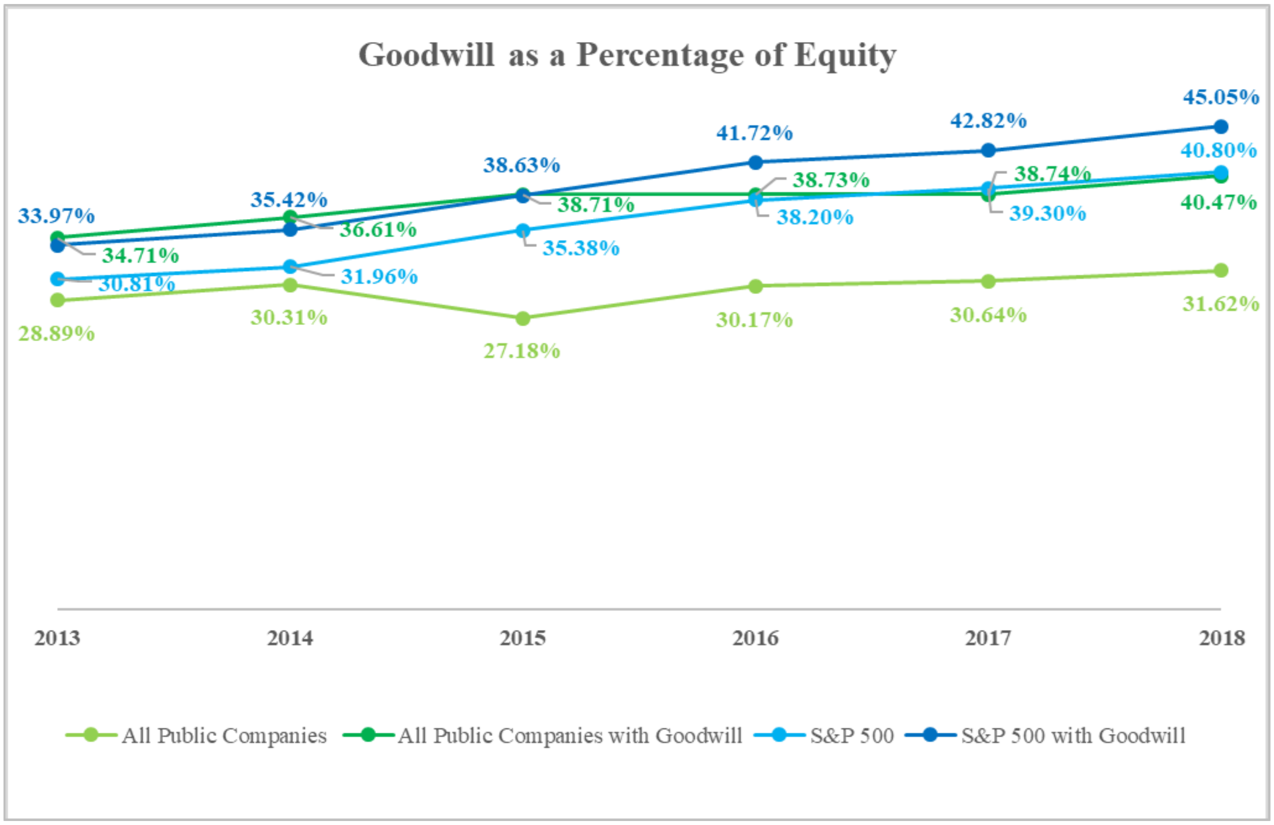
Source: Calcbench

Chart 2



Source: Calcbench

Chart 3



Source: Calcbench

The following are key takeaways from this data and ratio analysis:

Goodwill

- Goodwill in 2018 is $5.6 trillion and $3.3 trillion, respectively, for all public companies and the S&P 500.
- Goodwill has increased during the period 2013 to 2018 by $2.3 trillion and $1.2 trillion, respectively, for all public companies and the S&P 500.
- S&P 500 companies in 2018 comprise 8% of all public companies but 58% of all goodwill.
- Approximately 90% of all S&P 500 companies have goodwill balances and S&P companies with goodwill representing 14% of all public companies with goodwill.
- Overall, S&P 500 companies have a disproportionately large percentage of goodwill. Though only 8% of all public companies, the S&P 500 account for 50% of the growth in goodwill from 2013 to 2018.

S&P 500 companies with goodwill over $20 billion in 2018 are listed in **Table 2**. These 41 companies account for $1.6 trillion of the $3.3 trillion, 50%, of the goodwill of S&P 500 companies and 29% of the goodwill of all U.S. public companies.

S&P 500 Companies
Goodwill Balances Exceeding $20 Billion
December 31, 2018

Table 2

Company	Ticker	Goodwill
At&T Inc.	T	$146,370,000,000
Berkshire Hathaway Inc	BRK	$81,025,000,000
CVS HEALTH Corp	CVS	$78,678,000,000
Bank Of America Corp	BAC	$68,951,000,000
Comcast Corp	CMCSA	$66,154,000,000
Unitedhealth Group Inc	UNH	$58,910,000,000
Pfizer Inc	PFE	$53,411,000,000
United Technologies Corp	UTX	$48,112,000,000
Jpmorgan Chase & Co	JPM	$47,471,000,000
Allergan plc	AGN	$45,913,300,000
Cigna Corp	CI	$44,505,000,000
Oracle Corp	ORCL	$43,779,000,000
Microsoft Corp	MSFT	$42,026,000,000
Procter & Gamble Co	PG	$40,273,000,000
Medtronic plc	MDT	$39,959,000,000
Kraft Heinz Co	KHC	$36,503,000,000
International Business Machines Corp	IBM	$36,265,000,000
DuPont de Nemours, Inc.	DD	$34,496,000,000
General Electric Co	GE	$33,974,000,000
Cisco Systems, Inc.	CSCO	$31,706,000,000
Walt Disney Co	DIS	$31,269,000,000
Walmart Inc.	WMT	$31,181,000,000
Johnson & Johnson	JNJ	$30,453,000,000
Charter Communications, Inc.	CHTR	$29,554,000,000
Centurylink, Inc	CTL	$28,031,000,000
Broadcom Inc.	AVGO	$26,913,000,000
Linde Plc	LIN	$26,874,000,000
Wells Fargo & Company	WFC	$26,418,000,000
Danaher Corp	DHR	$25,906,000,000
Thermo Fisher Scientific Inc.	TMO	$25,347,000,000
Schlumberger Limited	SLB	$24,931,000,000
Verizon Communications Inc	VZ	$24,614,000,000
Intel Corp	INTC	$24,513,000,000
Becton Dickinson & Co	BDX	$23,600,000,000
Abbott Laboratories	ABT	$23,254,000,000
Citigroup Inc	C	$22,046,000,000
Kinder Morgan, Inc.	KMI	$21,965,000,000
Mondelez International, Inc.	MDLZ	$20,725,000,000
Baker Hughes Co	BKR	$20,717,000,000
Anthem, Inc.	ANTM	$20,504,000,000
Marathon Petroleum Corp	MPC	$20,184,000,000
		$1,607,480,300,000

Goodwill as a % of Assets

- Goodwill in 2018 represents 6% of the assets of all public companies and 9% of the assets of S&P 500 companies.
- Goodwill in 2018 represents 8% of the assets of all public companies with goodwill balances and 10% of the assets of S&P 500 companies with goodwill balances.
- Goodwill as a percentage of assets for all public companies and all public companies with goodwill has remained relatively stable at 5.62% to 5.94% and 7.33% to 8.06%, respectively, over the period from 2013 to 2018.
- Goodwill as a percentage of assets for S&P 500 companies and S&P 500 companies with goodwill has grown substantially from 7.06% to 9.28% and 7.49% to 9.84%, respectively, over the period from 2013 to 2018.
- S&P 500 companies have experienced a much more significant growth in goodwill as a percentage of assets.

Goodwill as a % of Equity

- Goodwill in 2018 represents 32% of the equity of all public companies and 41% of the equity of S&P 500 companies.
- Goodwill in 2018 represents 40% of the equity of all public companies with goodwill balances and 45% of the equity of S&P 500 companies with goodwill balances.
- Goodwill as a percentage of equity for all public companies has remained relatively stable at 28.9% to 31.6% but has grown rather substantially for all public companies with goodwill from 34.7% to 40.5% over the period from 2013 to 2018, respectively.
- Goodwill as a percentage of equity for S&P 500 companies and S&P 500 companies with goodwill has grown substantially from 30.8% to 40.8% and 34.0% to 45.0%, respectively, over the period from 2013 to 2018.
- S&P 500 companies have experienced a much more significant growth in goodwill as a percentage of equity – nearly 50% – over the period from 2013 to 2018.

Number of Years Profits Required to Offset Goodwill Amortization
If the private company amortization model is adopted, the profit of all companies with goodwill will be reduced by the amortization of goodwill. We performed an analysis using goodwill as of 2018 to determine how many companies in the S&P 500 would require longer than the ten-year amortization period to generate profits greater than the goodwill balance.

Using 2018 profits as the benchmark we found 69 companies that took greater than 10 years worth of 2018 profits to recoup the amortization (write-off) of goodwill. The 37 companies with a period longer than 20 years are shown in **Table 3**. As 22 companies had a net loss, they were assumed not to recoup the goodwill amortization as it would only increase the net loss.

A complete list is included in **Appendix A**.

This was a quick and dirty analysis to demonstrate the relationship of goodwill amortization to current public company profits and to provide stakeholders and policymakers with a sense as to the implication of implementing goodwill amortization on the income statement of public companies.

S&P 500 Companies
Goodwill Balances Greater Than 20 Years of 2018 Profits
December 31, 2018

Table 3

Company	Ticker	Goodwill	Stockholders Equity	Net Income	Years to Recoup
CVS Health Corp	CVS	$78,678,000,000	$58,721,000,000	($596,000,000)	No
Allergan plc	AGN	$45,913,300,000	$65,131,000,000	($5,086,200,000)	No
Kraft Heinz Co	KHC	$36,503,000,000	$51,775,000,000	($10,254,000,000)	No
General Electric Co	GE	$33,974,000,000	$51,481,000,000	($22,443,000,000)	No
Centurylink, Inc	CTL	$28,031,000,000	$19,828,000,000	($1,733,000,000)	No
Corteva, Inc.	CTVA	$10,193,000,000	$75,153,000,000	($5,018,000,000)	No
Western Digital Corp	WDC	$10,076,000,000	$9,967,000,000	($754,000,000)	No
Zimmer Biomet Holdings, Inc.	ZBH	$9,594,400,000	$11,276,100,000	($379,300,000)	No
TechnipFMC plc	FTI	$7,607,600,000	$10,388,900,000	($1,910,800,000)	No
Nielsen Holdings plc	NLSN	$6,987,000,000	$3,043,000,000	($700,000,000)	No
Qualcomm Inc	QCOM	$6,498,000,000	$807,000,000	($4,964,000,000)	No
National Oilwell Varco Inc	NOV	$6,264,000,000	$13,889,000,000	($22,000,000)	No
Coty Inc.	COTY	$5,073,800,000	$4,592,700,000	($3,769,600,000)	No
Newell Brands Inc.	NWL	$3,692,900,000	$5,253,200,000	($6,942,500,000)	No
Dentsply Sirona Inc.	XRAY	$3,431,300,000	$5,133,000,000	($1,010,900,000)	No
Hologic Inc	HOLX	$2,533,200,000	$2,428,800,000	($111,300,000)	No
Whirlpool Corp	WHR	$2,451,000,000	$3,205,000,000	($159,000,000)	No
Autodesk Inc	ADSK	$2,450,800,000	($210,900,000)	($80,800,000)	No
Dollar Tree, Inc.	DLTR	$2,296,600,000	$5,642,900,000	($1,590,800,000)	No
Nisource Inc.	NI	$1,690,700,000	$5,750,900,000	($50,600,000)	No
Under Armour, Inc.	UA	$546,494,000	$2,016,871,000	($46,302,000)	No
Hess Corp	HES	$360,000,000	$10,888,000,000	($115,000,000)	No
Cisco Systems, Inc.	CSCO	$31,706,000,000	$43,204,000,000	$110,000,000	288.24
NortonLifeLock Inc.	NLOK	$2,677,000,000	$5,738,000,000	$31,000,000	86.35
Becton Dickinson & Co	BDX	$23,600,000,000	$20,994,000,000	$311,000,000	75.88
Baker Hughes Co	BKR	$20,717,000,000	$35,013,000,000	$283,000,000	73.20
American International Group Inc	AIG	$4,082,000,000	$57,309,000,000	$61,000,000	66.92
Alexion Pharmaceuticals, Inc.	ALXN	$5,037,400,000	$9,165,300,000	$77,600,000	64.91
Iqvia Holdings Inc.	IQV	$11,800,000,000	$6,954,000,000	$284,000,000	41.55
Mckesson Corp	MCK	$9,358,000,000	$8,287,000,000	$255,000,000	36.70
Perrigo Co plc	PRGO	$3,979,800,000	$5,668,100,000	$131,000,000	30.38
Jacobs Engineering Group Inc	JEC	$4,795,856,000	$5,944,354,000	$173,142,000	27.70
Mylan N.V.	MYL	$9,747,800,000	$12,167,100,000	$352,500,000	27.65
Gartner Inc	IT	$2,923,136,000	$850,757,000	$122,456,000	23.87
News Corp	NWS	$5,147,000,000	$10,311,000,000	$228,000,000	22.57
Davita Inc.	DVA	$6,841,960,000	$3,908,398,000	$333,040,000	20.54
Expedia Group, Inc.	EXPE	$8,120,000,000	$5,651,000,000	$398,000,000	20.40

Equity Less Goodwill

Given the significant goodwill balances we observed when reviewing the data, we undertook an exercise for the S&P 500 companies where we deducted 2018 goodwill from equity balances.

Though we recognize there won't be an immediate write-off of goodwill, moving to a private company model schedules the write-down of this asset and the reduction of equity over the next 10 years. This is something investors will want to be mindful of when considering company value, ratios and the difference between book and market value – depending upon their view of whether goodwill is or is not a wasting asset of the investee company.

We noted that 112, approximately 25%, of the 444 S&P 500 companies with goodwill ($997 billion of goodwill and $633 billion of equity) have negative equity if goodwill is netted against equity. Twenty companies have negative equity prior to the deduction of goodwill. The total negative equity amounts to $364 billion.

A complete list of these companies is provided in **Appendix B**.

Those entities with negative equity of greater than $3 billion (35 entities) are show in **Table 4**. They have an aggregate goodwill of $589 billion and negative equity of $263 billion. Seven of such entities have negative equity before deducting goodwill.

This was a quick and dirty analysis to demonstrate the relationship of goodwill to existing equity balances and to provide stakeholders and policymakers with a sense as to the implication of implementing a change to the accounting for goodwill – whether direct write-off or amortization. The analysis which follows is meant to illustrate the profits necessary to recoup this write-off or amortization of goodwill. Overall, the impact to equity of the decision to amortize goodwill is significant. The impact to profitability ratios will be equally impactful.

S&P 500 Companies
Goodwill Balances Greater Than Stockholders Equity
Companies with Equity Minus Goodwill Greater Than $3 Billion
December 31, 2018 **Table 4**

Company	Ticker	Goodwill	Stockholders Equity	Equity Minus Goodwill
AbbVie Inc.	ABBV	$15,663,000,000	($8,446,000,000)	($24,109,000,000)
Oracle Corp	ORCL	$43,779,000,000	$22,363,000,000	($21,416,000,000)
CVS HEALTH Corp	CVS	$78,678,000,000	$58,721,000,000	($19,957,000,000)
International Business Machines Corp	IBM	$36,265,000,000	$16,929,000,000	($19,336,000,000)
Philip Morris International Inc.	PM	$7,189,000,000	($10,739,000,000)	($17,928,000,000)
Northrop Grumman Corp	NOC	$18,672,000,000	$8,187,000,000	($10,485,000,000)
Lockheed Martin Corp	LMT	$10,769,000,000	$1,449,000,000	($9,320,000,000)
Mcdonalds Corp	MCD	$2,331,500,000	($6,258,400,000)	($8,589,900,000)
Centurylink, Inc	CTL	$28,031,000,000	$19,828,000,000	($8,203,000,000)
TransDigm Group INC	TDG	$6,223,290,000	($1,808,471,000)	($8,031,761,000)
General Dynamics Corp	GD	$19,594,000,000	$11,732,000,000	($7,862,000,000)
United Technologies Corp	UTX	$48,112,000,000	$40,610,000,000	($7,502,000,000)
Boeing Co	BA	$7,840,000,000	$410,000,000	($7,430,000,000)
General Mills Inc	GIS	$13,995,800,000	$7,367,700,000	($6,628,100,000)
Omnicom Group Inc.	OMC	$9,384,300,000	$3,106,900,000	($6,277,400,000)
Qualcomm Inc	QCOM	$6,498,000,000	$807,000,000	($5,691,000,000)
Firstenergy Corp	FE	$5,618,000,000	$41,000,000	($5,577,000,000)
Iqvia Holdings Inc.	IQV	$11,800,000,000	$6,954,000,000	($4,846,000,000)
Hilton Worldwide Holdings Inc.	HLT	$5,160,000,000	$558,000,000	($4,602,000,000)
Unitedhealth Group Inc	UNH	$58,910,000,000	$54,319,000,000	($4,591,000,000)
American Airlines Group Inc.	AAL	$4,091,000,000	($169,000,000)	($4,260,000,000)
Viacom Inc.	VIA	$11,609,000,000	$7,465,000,000	($4,144,000,000)
Home Depot, Inc.	HD	$2,252,000,000	($1,878,000,000)	($4,130,000,000)
Conagra Brands Inc.	CAG	$11,460,100,000	$7,463,700,000	($3,996,400,000)
Aon plc	AON	$8,171,000,000	$4,219,000,000	($3,952,000,000)
Nielsen Holdings plc	NLSN	$6,987,000,000	$3,043,000,000	($3,944,000,000)
Amerisourcebergen Corp	ABC	$6,664,272,000	$3,049,961,000	($3,614,311,000)
Republic Services, Inc.	RSG	$11,400,100,000	$7,929,500,000	($3,470,600,000)
Cigna Corp	CI	$44,505,000,000	$41,035,000,000	($3,470,000,000)
Fiserv Inc	FISV	$5,702,000,000	$2,293,000,000	($3,409,000,000)
Raytheon Co	RTN	$14,864,000,000	$11,472,000,000	($3,392,000,000)
Fidelity National Information Services, Inc.	FIS	$13,545,000,000	$10,222,000,000	($3,323,000,000)
Sherwin Williams Co	SHW	$6,956,702,000	$3,730,745,000	($3,225,957,000)
Moodys Corp	MCO	$3,781,300,000	$656,500,000	($3,124,800,000)
Western Union Co	WU	$2,725,000,000	($309,800,000)	($3,034,800,000)
		$589,226,364,000	$326,353,335,000	($262,873,029,000)

Number of Years Profits Required to Offset Negative Equity

Recognizing that companies will earn profits during a 10-year goodwill amortization period, we undertook an exercise to determine the number of years of current year profits that would be necessary to return the negative equity to zero. Said differently, how many years does it take for current profits to offset (or earn back) the goodwill write-off.

Those entities with negative equity of greater than $3 billion (35 entities) are include in **Table 5**. Of those entities, four companies have a net loss so they never earn back the goodwill (under our analysis) and one company with profits has a period longer than the ten year amortization period.

A complete list of the 112 companies with negative equity and the years necessary to recoup the goodwill amortization is shown in **Appendix C**. Eleven companies with negative equity are not assumed to recoup the goodwill amortization – eight because of a net loss and three due to a period to recoup in excess of ten years.

S&P 500 Companies
Goodwill Balances Greater Than Stockholders Equity
Companies with Equity Minus Goodwill Greater Than $3 Billion
Years to Recoup Equity Minus Goodwill Balances
December 31, 2018

Table 5

Company	Ticker	Goodwill	Stockholders Equity	Equity Minus Goodwill	Net Income	Years to Recoup	Recoup?
AbbVie Inc.	ABBV	$15,663,000,000	($8,446,000,000)	($24,109,000,000)	$5,687,000,000	4.24	
Oracle Corp	ORCL	$43,779,000,000	$22,363,000,000	($21,416,000,000)	$11,083,000,000	1.93	
CVS HEALTH Corp	CVS	$78,678,000,000	$58,721,000,000	($19,957,000,000)	($596,000,000)	No	No
International Business Machines Corp	IBM	$36,265,000,000	$16,929,000,000	($19,336,000,000)	$8,728,000,000	2.22	
Philip Morris International Inc.	PM	$7,189,000,000	($10,739,000,000)	($17,928,000,000)	$8,286,000,000	2.16	
Northrop Grumman Corp	NOC	$18,672,000,000	$8,187,000,000	($10,485,000,000)	$3,229,000,000	3.25	
Lockheed Martin Corp	LMT	$10,769,000,000	$1,449,000,000	($9,320,000,000)	$5,046,000,000	1.85	
Mcdonalds Corp	MCD	$2,331,500,000	($6,258,400,000)	($8,589,900,000)	$5,924,300,000	1.45	
Centurylink, Inc	CTL	$28,031,000,000	$19,828,000,000	($8,203,000,000)	($1,733,000,000)	No	No
TransDigm Group INC	TDG	$6,223,290,000	($1,808,471,000)	($8,031,761,000)	$957,062,000	8.39	
General Dynamics Corp	GD	$19,594,000,000	$11,732,000,000	($7,862,000,000)	$3,345,000,000	2.35	
United Technologies Corp	UTX	$48,112,000,000	$40,610,000,000	($7,502,000,000)	$5,269,000,000	1.42	
Boeing Co	BA	$7,840,000,000	$410,000,000	($7,430,000,000)	$10,460,000,000	0.71	
General Mills Inc	GIS	$13,995,800,000	$7,367,700,000	($6,628,100,000)	$1,786,200,000	3.71	
Omnicom Group Inc.	OMC	$9,384,300,000	$3,106,900,000	($6,277,400,000)	$1,440,500,000	4.36	
Qualcomm Inc	QCOM	$6,498,000,000	$807,000,000	($5,691,000,000)	($4,964,000,000)	No	No
Firstenergy Corp	FE	$5,618,000,000	$41,000,000	($5,577,000,000)	$1,348,000,000	4.14	
Iqvia Holdings Inc.	IQV	$11,800,000,000	$6,954,000,000	($4,846,000,000)	$284,000,000	17.06	No
Hilton Worldwide Holdings Inc.	HLT	$5,160,000,000	$558,000,000	($4,602,000,000)	$769,000,000	5.98	
Unitedhealth Group Inc	UNH	$58,910,000,000	$54,319,000,000	($4,591,000,000)	$12,382,000,000	0.37	
American Airlines Group Inc.	AAL	$4,091,000,000	($169,000,000)	($4,260,000,000)	$1,412,000,000	3.02	
Viacom Inc.	VIA	$11,609,000,000	$7,465,000,000	($4,144,000,000)	$1,759,000,000	2.36	
Home Depot, Inc.	HD	$2,252,000,000	($1,878,000,000)	($4,130,000,000)	$11,121,000,000	0.37	
Conagra Brands Inc.	CAG	$11,460,100,000	$7,463,700,000	($3,996,400,000)	$678,400,000	5.89	
Aon plc	AON	$8,171,000,000	$4,219,000,000	($3,952,000,000)	$1,174,000,000	3.37	
Nielsen Holdings plc	NLSN	$6,987,000,000	$3,043,000,000	($3,944,000,000)	($700,000,000)	No	No
Amerisourcebergen Corp	ABC	$6,664,272,000	$3,049,961,000	($3,614,311,000)	$1,615,892,000	2.24	
Republic Services, Inc.	RSG	$11,400,100,000	$7,929,500,000	($3,470,600,000)	$1,037,600,000	3.34	
Cigna Corp	CI	$44,505,000,000	$41,035,000,000	($3,470,000,000)	$2,646,000,000	1.31	
Fiserv Inc	FISV	$5,702,000,000	$2,293,000,000	($3,409,000,000)	$1,187,000,000	2.87	
Raytheon Co	RTN	$14,864,000,000	$11,472,000,000	($3,392,000,000)	$2,882,000,000	1.18	
Fidelity National Information Services, Inc.	FIS	$13,545,000,000	$10,222,000,000	($3,323,000,000)	$881,000,000	3.77	
Sherwin Williams Co	SHW	$6,956,702,000	$3,730,745,000	($3,225,957,000)	$1,108,746,000	2.91	
Moodys Corp	MCO	$3,781,300,000	$656,500,000	($3,124,800,000)	$1,319,400,000	2.37	
Western Union CO	WU	$2,725,000,000	($309,800,000)	($3,034,800,000)	$851,900,000	3.56	

The Bottom Line: Amortization Will Have a Significant Detrimental Impact on Equity & Earnings of U.S. Public Companies

A decision by the FASB to adopt private company accounting for goodwill would result in the amortization (write-off) over ten years of $5.6 trillion of assets on the books of U.S. public companies. This amounts to 6% of all public company assets and 8% of the assets of public companies with goodwill. Goodwill represents 32% and 40%, respectively, of the equity of such public companies. More staggering is the effect this would have on S&P 500 companies. With $3.3 trillion in goodwill, the S&P 500 represent nearly 60% of the goodwill of all U.S. public companies, though S&P 500 companies represent only 8% of U.S. public companies and 37% of the assets of U.S. public companies. Goodwill represents 10% of the assets and 45% of the equity of S&P 500 companies with goodwill.

Adopting the private company approach to goodwill amortization would schedule the write-off (amortization) of a substantial portion of the assets and equity of U.S. public companies and reduce profits of the S&P 500 by $330 billion ($560 billion for all U.S. public companies) for ten years. Because goodwill impairments are not tagged separately from all other asset type impairments, it is not possible to ascertain precisely the resulting incremental amortization impact. That said, in 2018, asset impairment charges for all public companies were $158 billion – up from $108 billion in 2017 and $104 billion in 2016 – due significantly to the $23 billion impairment at GE. At an impairment rate of approximately $100-$150 billion, it would take substantially more the 10 years to amortize away existing goodwill. It would be an annual increase of $400-$450 billion in amortization and a similar decrease in profits. The growth in goodwill from 2013 to 2018 highlights that a change to amortization would result in a substantial reduction in assets and equity as impairments are not as high as will be amortization.

Our analysis included herein is a rough approximation of the implications of the impact of moving to an amortization model. We include this data such that all stakeholders properly contextualize and understand the magnitude and implications of a move to goodwill amortization.

The Cost of Impairment Testing

Impairment Cost Survey

On Page 8 of the Goodwill Invitation to Comment, the FASB articulates the following assumption in the preparation of the Invitation to Comment:

> This ITC seeks feedback on whether a change is warranted. ***The remainder of this ITC assumes that the cost of the present accounting model [impairment] exceeds the benefit and that a change [to amortization] is warranted***.

Throughout the Goodwill ITC the presumption is that identifying intangibles and computing goodwill, as well as subsequently evaluating their impairment, is too costly and does not justify the benefit. However, ***neither the impairment cost nor the benefit (i.e. the value relevance of impairment information) is explored in the consultation***.

The FASB must perform a survey of impairment costs such that investors can better evaluate whether the cost of the impairment testing is worth the information content from the performance of the impairment evaluation. ***Currently, the FASB's analysis of the cost of impairment is only anecdotal. Given investors pay the cost of the impairment test, this information should be made transparent such that investors are able to perform the cost/benefit analysis. We do not think such an important decision should be made without an explicit articulation of the cost – given this is the primary driver (and the guiding assumption as we outline above) of why goodwill accounting is being addressed again by the FASB.*** Investors should be able to have the data to make a judgement for themselves.

The data in the preceding section highlights the magnitude of the size of goodwill balances to the largest U.S. Companies. ***The sheer magnitude of the goodwill balances ($5.6 trillion on the books of all U.S. public companies and $3.3 trillion on the books of the S&P 500) and the consequence of a decision to amortize goodwill (i.e. scheduling the write off of 10% of total assets and 45% of equity of the S&P 500 companies with goodwill) warrants an empirical cost/benefit analysis – rather than simply an assumption that the cost exceeds the benefit***.

Identification and compilation of the costs should be relatively easy as the costs include internal management time, external specialist and auditor time all of which are relatively discrete and identifiable.

Costly Impairments: Investors Make the Assessment Earlier & With Less Information

Much of the argument set forth in the Goodwill ITC is that the cost of performing impairment testing is so prohibitive that amortization should be implemented as a proxy. Despite preparers having far more information and insight into the business, there is substantial empirical evidence that the write-off of goodwill is reflected in the share price of a company by capital market participants prior to when the actual write-off occurs and is announced by company management.

Accordingly, the FASB needs to reconcile preparer narratives regarding the cost and complexity of impairment testing to the market's more timely – and more cost effective – recognition of impairments. Preparers' cost narrative should create a series of questions for standard setters, including:

- How can investors with less information than company management perform a more effective impairment test?
- Why isn't management taking impairment charges in a more timely manner?
- How could it be less costly for each investor in a company to perform an impairment test, rather than company management performing the impairment test – especially with its superior information?
- Why would amortization eliminate the need for impairment as investors are likely to continue to perform valuations and recognize impairments?

This Socratic exercise – as well as the lack of economic relevance of amortization figures (as we highlight below) – should be a paramount consideration to members of both Boards as they evaluate the push toward amortization over impairment. ***Overall, the Boards need to determine if the cost of impairment can be too high given the market seems to perform such an analysis with less information.***

The Future of Financial Reporting: Moving Backward or Forward

Economic Relevance & Decision-Usefulness of Financial Statements

We are concerned with the assumption in the Goodwill ITC not only because it reveals a bias in the consultation, but because it reveals a bias toward historical financial reporting measurements that jeopardize the relevance to investors of financial statements, financial reporting and the related accounting and auditing professions.

In the midst of an era of unprecedented technological disruption – where intangibles are driving enterprise valuations and where historical transactions may be accounted for and audited using technology rather than human capital – the assumption underlying this consultation is surprising. Returning financial statements to an era where intangible valuations are less meaningful and where impairment is replaced by rote amortization rolls back the relevance of financial reporting. ***Stepping back and considering this consultation in the context of the current technological and information environment must require investors to consider whether standard setters, regulators and policymakers understand the current and future investment decision-making information ecosystem and whether they have a strategic plan or direction regarding how their policymaking decisions impact the future relevance of financial statements.***

The fact that both the recognition and subsequent measurement of goodwill is considered too difficult and costly to perform by preparers reflects, to our mind, a profession not keeping pace with the changes in the economy and technology and the value they bring to the information ecosystem. Audit reforms being debated in the UK are bringing to the forefront the value of auditors and the financial statements they audit. The call for more forward-looking work by management and auditors in the Brydon Review means the underlying information must be more forward-looking and future oriented – as an audit cannot be forward-looking if the information is backward looking.

The assumption upon which this ITC is premised is antithetical to the desire of investors (and other stakeholders) for financial reporting and annual reports to be more relevant to their interests.

Further, the early disclosure of critical audit matters (CAMs) shows that goodwill impairment testing is one of the most, if not the most, prevalent CAM. Elimination of goodwill impairment testing would likely eliminate this CAM – at the same time eliminating the judgements and value-added exercise of auditing the value of this, and other, intangible assets.

Overall, this proposal concerns us as we believe the accounting profession should embrace the need to evolve not revert to the accounting of two decades ago – a reversion which will impede the value the accounting and auditing profession can bring to investors. ***We believe the FASB should spend its time defining the value relevant information for the future rather than spend time debating a reversion to the accounting of 20 years ago.***

Forthcoming Thought Leadership: Investor Survey and Perspectives

CFA Institute plans to complete a survey and thought leadership piece in early 2020 on the topic of intangibles and goodwill. We will consult the Boards to determine if there are any issues they would like specifically queried, in addition to those outlined in their preliminary consultations. The views expressed herein are based on decades of discussion with our investor members and investors, more broadly, on this topic. The survey and thought leadership seeks to compile investor perspectives in one location for use by policymakers.

CONSULTATION SPECIFIC CONSIDERATIONS

We have not responded specifically to each of the questions in the Invitation to Comment. Rather, we provide an overview of our views on the initial recognition of intangibles, the subsequent accounting for goodwill and potential disclosure improvements − the three key sections of the Invitation to Comment. We will provide more detailed observations in the thought leadership piece we anticipate issuing in 2020.

Initial Recognition of Intangibles

CFA Institute has long supported the recognition and measurement of intangible assets. As we note above, the FASB's consideration of providing less insight into the nature and value of acquired intangibles in an era of unprecedented technological disruption where intangibles are drivers of substantial economic value is surprising. In our 2012 publication, *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust and Volume*, we made the following comments

Existing Accounting Model: Providing Decision-Useful Information in Today's Economy?

Like the delivery of financial reporting information, the accounting model that underpins financial reporting was developed more than 40 years ago in an economic context that is significantly different from today's context. Some suggest that while the accounting model is suited for a manufacturing economy, the existing accounting model may not provide the most decision-useful information for today's investors, given that the current economy is heavily based on information technology, financial services, and services generally.

Technology Companies

For example, valuation of intangible assets is important to technology companies in explaining their value to investors, yet there is no reflection of such intangibles in the financial statements or any disclosures in the notes regarding how such values might be assessed. Investors thus question whether financial statements for this segment of the economy provide meaningful and decision-useful financial information.

Recommendations: Enhancing Financial Reporting and Disclosure Effectiveness

15. Intangible Assets

Investors require clear and complete information about intangible assets acquired or developed by a company. Intellectual property and other intangible assets are increasingly the economic drivers for many businesses. These assets may be the major sources of a company's revenue generation or contribute significantly to its expense structure. Many, if not most, intangibles, however, are not recognized in the financial statements. But clear and complete information about intangible assets, whether on or off the balance sheet and whether purchased or generated internally, is essential for investors' analyses.

regarding investors views on the recognition and disclosure of intangibles.

Investors – as we highlighted seven years ago – want more, not less, information regarding intangibles and the long-term value creating activities of the business. All approaches outlined in the Invitation to Comment except Approach 4 would decrease the value relevant information contained in financial statements.

We believe the FASB and SEC should be working to provide improved disclosures on value creation and a disclosure (or accounting model) that reflects the importance of intangibles – whether purchased or internally generated – in the current economy rather than moving backward to the accounting of 20 years ago. See also discussion of disclosures that follows.

Goodwill: What Is It?

The consultation does not address the conceptual definition of goodwill in the existing literature and whether this ITC seeks to change that conceptual definition of goodwill. Because amortization presumes goodwill is a wasting asset, defining goodwill is essential before any determination can be made regarding mandating amortization.

Some perceive goodwill solely represents the present value of future profits of the acquired enterprise. Accordingly, they believe as the purchased profits emerge goodwill should be reduced. Others, however, believe goodwill can include other intangibles that have an indefinite life.

While amortization presumes all goodwill is a wasting asset, impairment provides the opportunity to reflect the finite or indefinite life of the goodwill asset. An impairment test will reflect the wasting nature of goodwill if it has a finite life, and unlike amortization, also allows recognition of the indefinite lived portion of goodwill.

We believe goodwill may not be a wasting asset in many cases and, for that reason, amortization can be a contradiction to economic reality. ***It is our view that this conceptual question must be answered before any determination is made regarding mandating amortization.***

Subsequent Accounting for Goodwill: Economic Relevance of Information Should be Focus

FASB Has Not Demonstrated:
Basis for Change & Whether Change is Improvement in Financial Reporting for Investors

CFA Institute supported the implementation of the impairment model for goodwill because we believed, when done effectively, impairment communicates the performance of the acquisition undertaken by management of an investee company (i.e. assuming it is done at the appropriate level and recognized timely). An accounting change to bring back amortization could ease operational aspects and costs for preparers and auditors. However, it would not be helpful to users and capital markets as the accounting will likely move away from the underlying economics – because, as we state above, impairment testing allows recognition of the fact that goodwill can have a finite or indefinite life.

We do not believe the FASB has made a compelling argument in support of eliminating goodwill impairment. The ITC does not explain why the current impairment-based model needs to change or why it needs to change right now – other than to say it is costly to prepare impairment tests. Further, there is no empirical evidence as to the cost of impairment testing. Still further, the Invitation to Comment does not explain why the FASB's (and IASB's) previous conclusion that

impairment was the appropriate accounting was incorrect. Overall, the Invitation to Comment does not explain how a change away from impairment toward amortization would result in an improvement in corporate reporting – a condition precedent to any accounting change.

<u>*The Real Issue:*</u>
<u>*Delayed Recognition of Impairment & Improvements Needed in Impairment Testing*</u>
While certainly some analysts and investors support amortization, this support is generally a pragmatic stance that recognizes companies fail to timely recognize the results of the impairment testing and that equity is artificially inflated by impaired goodwill not yet recognized by management. ***The delayed recognition of impairments, along with improvements in impairment testing, are the problems that needs to be addressed – and amortization is the wrong solution to that problem.***

The Goodwill ITC indicates on Page 7 that some believe impairments are simply cumulative amortization charges not previously taken. We disagree. As we note above, we believe impairments reflect the performance of the acquired business over time. If there are annual decreases in the value of the business acquired, they will be reflected in annual impairment charges. ***It is precisely because impairments have information content – regarding the success or failure of management's acquisitions – that impairments that they are delayed. It is the moral hazard of management not wanting to communicate poor performance that causes the delay in recognition of impairment charges. Amortization, as we describe below, grades all managers (good or bad) equally.***

Because we believe impairment is a necessary element of evaluating the performance of an acquisition, we could never support a model that would result in amortization without any type of impairment testing. ***Arbitrary, default or capped amortization periods will never provide an appropriate valuation of the downside risk of acquisitions that don't fulfill their promised value***. Failure to accompany any amortization method with an impairment test would delay the write-off of goodwill on acquisitions that go bad quickly − consider the GE and Kraft Heinz examples highlighted previously.

Most investors do not understand the concept of goodwill impairment testing at the "reporting unit" level. They do not understand the concept because it is generally not well disclosed or sufficiently explained in the financial statements. The degree of integration of the acquisition into the reporting unit and the impact on the goodwill impairment test is also not well explained. Investors do not have insight into the degree to which acquired versus existing cash flows are being used to support the value of the goodwill and the ability of the impairment testing to provide insight into the performance of acquisition or the performance of the reporting unit as a whole. What is not communicated to investors is the point where impairment testing of the goodwill becomes impairment testing of the reporting unit rather than the acquisition. In the longer-term, the impairment test may actually communicate the value of the reporting unit rather than the value of goodwill alone. This, however, is not sufficiently disclosed to investors. To our mind, this is something that not only investors want to know. Boards too should want to have an understanding of this as they monitor post-deal performance. This should be an oversight, not simply an accounting, concern.

The Board and Management Should Be Evaluating Performance of Acquisitions

The push to eliminate impairment testing because it is too costly or too difficult should trigger for investors another question: How are company boards evaluating the performance of an acquisition relative to the projections reviewed when making the acquisition decision? While investors understand that integration can make the impairment analysis "messy", projections of revenues, expenses, integration strategies and synergies existed before the deal was approved by the board and consummated by the company. Accordingly, there should be an ability to quantitatively and/or qualitatively assess the performance of the acquisition after it has been completed. And, the board should be evaluating the performance of these acquisitions. ***Investors want board members to monitor the profitability of these capital allocation decisions. Directors have the ability to request the information needed to evaluate acquisitions in the periods after completion and we believe the impairment testing can and should be part of that process. The notion that impairment testing is too costly to perform should raise for investors the question regarding what the board is doing to execute its oversight responsibilities***.

Behavioral Benefits of Impairment Testing

We know from our prior advocacy work on, for example, pensions that what gets measured and disclosed is what gets monitored. ***Anecdotally, we hear that the need to isolate and value intangibles as a part of the acquisition and do subsequent impairment testing has enhanced the communication, engagement and discipline of deal execution within organizations***. We find this an important behavioral benefit that the FASB has not articulated or quantified in the Invitation to Comment.

Further, ***we believe the behavioral benefits of impairment testing could be expanded by providing additional disclosures to investors as they would focus management and the board on monitoring of acquisitions***.

Still further, on the behavioral front, we believe the identification of goodwill impairment as one of the most common critical audit matters (CAMs) – and further discussion with the audit committee – should have the behavioral impact of creating timelier recognition of impairments. Time will tell.

Amortization: Not a Substitute for Bad Impairment Testing

We worry that implementing amortization rewards poor or untimely impairment testing and will reduce the behavioral benefits of impairment testing and disguise the failure to monitor the performance of acquisitions. Impairment testing requires management, the board and the auditors to assess the forward-looking prospects of a business. Without it, there is nothing that facilitates a forward-looking analysis of the business. This has been a significant consideration in the UK audit reform movement. As we have highlighted in our analysis of UK audit reforms, auditors and management cannot make forward-looking decisions with backward looking data – in this case amortization rather than impairment. The challenge, and benefit, of impairment testing is that it requires management, the board and auditors to look forward rather than backward. As a result, goodwill is cited as one of, if not the most prevalent critical audit matter in the new U.S. audit report. Overall, moving to amortization – especially without impairment – is more than simply an exercise in cost efficiency. It has the effect of eliminating the key forward-looking assessment of the prospects of a business and the forward-looking value of a key asset.

Amortization Decreases Usefulness of Earnings to Investors: Non-GAAP Measures will Rise

Prior to adoption of the new business combination and impairment testing guidance, CFA Institute published in a 2001 issue of the Financial Analysts Journal – a sponsored publication of the CFA Institute – as study, *Goodwill Amortization and the Usefulness of Earnings*[6]. Below is an abstract of the publication:

> ***This study provides evidence of the effect of goodwill amortization on the usefulness of earnings data as an indicator of share value for a large sample of publicly traded companies over the 1993–98 period***. This issue is of special interest because the Financial Accounting Standards Board recently adopted new accounting standards that eliminate the systematic amortization of goodwill in favor of a requirement to review goodwill for impairment when circumstances warrant***. We found that earnings before goodwill amortization explain significantly more of the observed distribution of share prices than earnings after goodwill amortization and that when share valuations are based on earnings alone, goodwill amortization simply adds noise to the measure***. These results suggest that eliminating goodwill amortization from the computation of net income will not reduce its usefulness to investors and analysts as a summary indicator of share value.
>
> Analysts frequently face the problem of how to consider goodwill amortization in their financial analysis. ***For many years, financial statement preparers and users have criticized the accounting requirement to amortize purchased goodwill against revenues over a period not to exceed 40 years. Critics have argued that goodwill may not decline in value and that, even if it does, the arbitrary amounts recorded periodically as goodwill amortization are unlikely to reflect that decline. In this view, goodwill amortization simply adds noise to earnings, thereby reducing their usefulness to investors. Accounting standard setters, in contrast, have until recently maintained that goodwill is likely to be a wasting asset in most circumstances and that recording goodwill amortization makes reported earnings more useful to investors by reflecting its decline in value. We provide empirical evidence as to which of these views is more consistent with the way in which investors price securities***.
>
> This issue is of current interest to investors and analysts because of a recent change in the accounting rules for purchased goodwill. Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, the reported earnings of acquiring companies will no longer include charges for goodwill amortization. Goodwill acquired in a business combination is recognized as an asset, as in the past, but once it is recognized, the asset remains on the balance sheet indefinitely, subject only to review for impairment when circumstances warrant. Thus, the question arises of whether excluding goodwill amortization from reported earnings will enhance or detract from its usefulness to investors.
> To investigate this issue, we document the extent to which variation in stock prices is explained by earnings before goodwill amortization and by reported earnings, which includes goodwill amortization. Our analysis, based on a large sample of publicly traded companies reporting purchased goodwill in the six-year period of 1993–1998, involved comparing R^2s from two cross-sectional regressions—one of stock price on earnings per share *before* goodwill amortization and the other of stock price on reported earnings. In interpreting the results of these comparisons, we assumed that prices reflect all value-relevant public information, so the earnings measure that explains more of the variation in stock prices can be viewed as the more useful summary indicator of share value.
>
> ***Our results provide evidence consistent with the criticisms of the previous accounting rules for goodwill. In each year and for the six-year period as a whole, earnings before goodwill amortization explain more of the variation in share prices than reported earnings, and for each year, the difference in explanatory power is statistically significant***. Moreover, when we regressed stock prices on earnings before goodwill amortization and on goodwill amortization, we found that the estimated coefficient (valuation multiple) on earnings before goodwill amortization was large and highly significant whereas the estimated coefficient on goodwill amortization was statistically indistinguishable from zero. **This finding strongly suggests that goodwill amortization merely adds noise to reported earnings. Overall, these results indicate that the recently adopted reporting rules for purchased goodwill are likely to increase the usefulness of earnings as a summary indicator of share value.**

---

[6] Jennings, LeClere, and Thomson, Financial Analysts Journal, *Goodwill Amortization and the Usefulness of Earnings*, Volume 57, 2001 – Issue 5. https://www.tandfonline.com/doi/abs/10.2469/faj.v57.n5.2478)

In short, the research[7] demonstrates (see bolded highlights above) that earnings before goodwill amortization are more explanatory to share price than is earnings with goodwill amortization. As such, ***implementing amortization will make US GAAP earnings less relevant to investors and will cause a rise in non-GAAP measures of performance***.

What the study highlights is the fact that each quarter amortization of goodwill will be adjusted out of earnings by analysts – and management. ***The consequence will be an even greater use of non-GAAP measures and the need for every investor to adjust earnings to remove the amortization each quarter. This demonstrates how US GAAP and IFRS will be less relevant each quarter.***

While certainly analysts and investors also remove impairment charges from their analysis, it is not because these amounts do not have information content. As we highlight above, impairment charges communicate the performance of a transaction. It is simply that impairment charges, like amortization, need to be removed to determine base-line earnings and cash flow projections. With goodwill amortization this adjustment will need to be made every quarter rather than periodically and the amortization, unlike impairment charge, has no information content.

It is essential the Boards highlight that both amortization and impairment are added back because investors are attempting to normalize cash flow projections – not because the information content in impairment and amortization are equivalent. As we observe the conversation on "add back" of amortization or impairment we find that there is a misunderstanding between investors and accountants. Accountants don't always understand that the amounts are being added back because they are non-cash charges. It is the lack of a more useful cash flow that necessitates the conversion of the income statement into the statement of cash flows from earnings.

While preparers extol the benefits of amortization over impairment, they will be the first to produce non-GAAP measures that eliminate goodwill amortization. This rise in non-GAAP measures should be a consideration for standard-setters and regulators as they evaluate the basis for the change. A short amortization period could result in premature amortization of goodwill – that gets added back in a non-GAAP measure – and shields management from impairment. It may also have the effect of protecting auditors and regulators from criticism in situations where impairments are deliberately delayed. However, it will be detrimental to market integrity because of the lack of information content in amortization and the discipline in deal execution and management evaluation of the forward-looking prospects of the business that come from impairment testing. In contrast, a timely recognition of impairment will reflect the improvement in financial reporting, audit quality and effectiveness of regulatory oversight. Overall, this will enhance confidence and trust in the financial reporting process.

Interestingly, should amortization be reinstated, the IASB's project on Management Performance Measures would likely include a net profit measure than includes goodwill amortization and a separate management performance measure on the face of the income statement – also audited – that excludes the amortization of goodwill.

---

7 Also interesting in the excerpt is the recapping of views (see bolded highlights in the second paragraph of the excerpt above) regarding whether goodwill is a wasting asset and the usefulness of goodwill amortization.

Amortization: Provides No Measure of Performance & Equalizes Good and Bad Managers

Many preparers object to current value measurements because they believe they obscure the performance of management. So too does the amortization of goodwill. ***Whether management's acquisition decision was value generating or destroying, the income statement will reflect the same result under an amortization model. In that way, there is no measurement of the performance of management in the income (or performance) statement.*** This would be especially true if amortization was adopted with arbitrary or default amortization periods without a need to continue impairment testing. ***Accordingly, amortization does not facilitate an investors ability to differentiate between good and bad acquisitions and good and bad managers***. In that way, amortization adds nothing to the performance statement. It simply acts to cure, over time, the ills of past acquisitions, and artificially improves many performance measures. As we note below – amortization detracts from effective financial analysis.

Amortization Creates Favorable Ratio Trends Despite Any Action by Management

Amortization of goodwill has the impact of artificially smoothing and improving profitability ratios over time (e.g. ROE, ROA, etc.) simply by the operation of amortization over time and the resulting decrease in assets and equity – this is especially true if management adds back the amortization of goodwill to "pro forma" earnings. The same earnings relative to lower equity and assets will imply favorable performance when, in fact, the rote amortization of goodwill is contributing to this "trend." Said differently, ***without any improvement in earnings, returns will look improved with goodwill amortization. For that reason, the amortization creates a ratio trend that can be misleading***.

Amortization Period

We find that the discussion of amortization period in the Goodwill ITC highlights the arbitrary nature of the amortization debate. The Goodwill ITC notes that a default period could be appropriate and that approaches that require management judgement regarding the amortization period would be costly. This commentary in the ITC on the amortization period highlights the lack of information content and value relevance of amortization especially if the amortization bears no relationship to the period over which the cash flows from the transaction are earned, nor includes any management judgement regarding the transaction. Without management judgement in determining the amortization period, or a relationship of the amortization period to the cash flows of the acquisition, amortization is simply a mechanical way of eliminating the goodwill asset from the balance sheet.

In our view, if there were to be amortization, the amortization period would need to reflect the period over which the cash flows were estimated to be realized at deal acquisition and this period would be updated based upon performance of the deal. Such amortization period would need to be disclosed as such disclosure has information content to investors. The information content of such a disclosure is that it conveys management's expectation and in that way is far more useful than a default period that has no meaning.

If a default period is considered, we believe the Boards should consider immediate write-off of goodwill as doing so will eliminate the need to adjust earnings in each future period to remove goodwill amortization. Further, immediate write-off would eliminate the fictitious improvement in trends like return on assets and equity brought about by goodwill amortization. Investors must ask: If goodwill is not an asset to be appropriately valued, why not simply write the amount off immediately? [8]

Disclosures

Improving Disclosures: The Necessary First Step

Investors are united in their interest in assessing the performance of the acquisitions that generate goodwill – even if they are not of one voice with respect to amortization versus impairment of goodwill. Accordingly, we believe improving disclosures regarding the initial recognition and valuation of goodwill and intangibles and the related impairment testing would be the most useful first step before any changes are made to the recognition or impairment of intangibles, including goodwill. The IASB is considering additional disclosures such as the recently discussed at the 2019 World Standard Setters Conference. ***We believe the FASB should be working with the IASB to craft improved disclosures not only because we believe this is the appropriate way forward, but because maintaining global convergence is essential***.

Disclosures Must Be Improved Even if Amortization Is Implemented

We assess the information value of amortization to be zero as it is an accounting rather than economic convention, and as such, is not relevant to valuation. Amortization provides no new data to help investors assess the success or failure of acquisitions over time and does not assist in our assessment of the value of these intangibles. In contrast, an impairment approach creates new data for users and should not therefore be abandoned.

As we note above, anecdotal cost estimates about impairment valuation need to be backed with empirical evidence to permit an objective cost/benefit analysis to be undertaken. Even if that evidence uncovers high costs associated with assessing impairments, this may not be sufficient cause to remove the information value of such efforts. Instead, as set out elsewhere, we believe the FASB should examine ways in which objective and continuous assessment of impairment could be simplified.

---

8 *Financial Reporting in the 1990s and Beyond,* published in 1993 by CFA Institute's predecessor organization, *Association for Investment Management and Research,* and no longer in print, notes that CFA Institute would prefer the early write-off of goodwill to the amortization of goodwill over an arbitrary long-term period such as 40 years as it reduces comparability without providing any economic relevance. The view was that the value of goodwill changed over time and the current value of goodwill had only a causal relationship with the future value. With the introduction on impairment testing and the greater use of fair value, CFA Institute saw the impairment testing as a means of assessing the value of the goodwill over time reflecting decreases in value as appropriate and, where justified, certain circumstances goodwill is not a wasting asset. The challenge – as we note above – is that the accounting standards setters implementation of the impairment testing is such that as an acquisition ages and is integrated into a reporting unit, the impairment testing of goodwill becomes a valuation of the reporting unit rather than the goodwill from the acquisition.

To that end, if FASB decides that a zero-information amortization approach needs to be substituted, the impact of this decision needs to be mitigated by way of the addition of a range of objective, quantified and company-specific disclosures that permit users to reach their own conclusions about acquisitions.

Managements should be providing their board of directors with assessments of the performance (value creation or destruction) of the acquisitions undertaken (i.e. especially since they now appear to be one of the most prevalent critical audit matters). ***Investors would like similar information to make their own assessments and are simply seeking the information management should be providing to its board of directors. As such, there should not be substantial additional cost with providing this information. If it is not available, investors should rightly question management and the board decision-making process in executing and evaluating acquisitions***.

Disclosures Regarding All Intangibles, Not Just Goodwill, Should Be Improved

In an era of continuous and increasingly inexpensive data flows, it is high time that careful research into ways that the acquisition intangibles black box can be opened up with the use of management-defined, objective KPIs about the expected measures that will allow an ongoing internal *and external* assessment of the success of specific acquisitions.

Further, as we note above, rather than moving away from the separate recognition and measurement of intangibles we believe the IASB, FASB and securities regulators should be considering disclosures of internally generated intangibles such that registration statements and financial statements better reflect company valuations and provide investors with insight into the value generating capabilities of the business. This is an important first step in disclosing intangibles within financial statements and possibly, someday, measuring them within financial statements.

****

To our mind, improved disclosures – and a survey on the cost of impairment testing – would provide investors (those who pay for impairment testing) and standard setters with more decision-useful information in evaluating the way forward on this issue. The magnitude of goodwill balances warrants careful consideration of the impact of a switch to amortization.

We would welcome an opportunity to meet with the project team and technical staff to discuss our comments and perspectives. If you or your staff have questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org or 212.754.8350.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy
CFA Institute

cc: Sagar Teotia, Chief Accountant, Securities and Exchange Commission
Hans Hoogervorst, Chair, International Accounting Standards Board
Kathleen Casey, Chair, Financial Accounting Foundation

Appendix A

S&P 500 Companies
Goodwill Balances Greater Than 10 Years of 2018 Profits
December 31, 2018

Company	Ticker	Goodwill	Net Income	Years to Recoup
CVS Health Corp	CVS	$78,678,000,000	($596,000,000)	No
Allergan plc	AGN	$45,913,300,000	($5,086,200,000)	No
Kraft Heinz Co	KHC	$36,503,000,000	($10,254,000,000)	No
General Electric Co	GE	$33,974,000,000	($22,443,000,000)	No
Centurylink, Inc	CTL	$28,031,000,000	($1,733,000,000)	No
Corteva, Inc.	CTVA	$10,193,000,000	($5,018,000,000)	No
Western Digital Corp	WDC	$10,076,000,000	($754,000,000)	No
Zimmer Biomet Holdings, Inc.	ZBH	$9,594,400,000	($379,300,000)	No
TechnipFMC plc	FTI	$7,607,600,000	($1,910,800,000)	No
Nielsen Holdings plc	NLSN	$6,987,000,000	($700,000,000)	No
Qualcomm Inc	QCOM	$6,498,000,000	($4,964,000,000)	No
National Oilwell Varco Inc	NOV	$6,264,000,000	($22,000,000)	No
Coty Inc.	COTY	$5,073,800,000	($3,769,600,000)	No
Newell Brands Inc.	NWL	$3,692,900,000	($6,942,500,000)	No
Dentsply Sirona Inc.	XRAY	$3,431,300,000	($1,010,900,000)	No
Hologic Inc	HOLX	$2,533,200,000	($111,300,000)	No
Whirlpool Corp	WHR	$2,451,000,000	($159,000,000)	No
Autodesk Inc	ADSK	$2,450,800,000	($80,800,000)	No
Dollar Tree, Inc.	DLTR	$2,296,600,000	($1,590,800,000)	No
Nisource Inc.	NI	$1,690,700,000	($50,600,000)	No
Under Armour, Inc.	UA	$546,494,000	($46,302,000)	No
Hess Corp	HES	$360,000,000	($115,000,000)	No
Cisco Systems, Inc.	CSCO	$31,706,000,000	$110,000,000	288.24
NortonLifeLock Inc.	NLOK	$2,677,000,000	$31,000,000	86.35
Becton Dickinson & Co	BDX	$23,600,000,000	$311,000,000	75.88
Baker Hughes Co	BKR	$20,717,000,000	$283,000,000	73.20
American International Group Inc	AIG	$4,082,000,000	$61,000,000	66.92
Alexion Pharmaceuticals, Inc.	ALXN	$5,037,400,000	$77,600,000	64.91
Iqvia Holdings Inc.	IQV	$11,800,000,000	$284,000,000	41.55
Mckesson Corp	MCK	$9,358,000,000	$255,000,000	36.70
Perrigo Co plc	PRGO	$3,979,800,000	$131,000,000	30.38
Jacobs Engineering Group Inc	JEC	$4,795,856,000	$173,142,000	27.70
Mylan N.V.	MYL	$9,747,800,000	$352,500,000	27.65
Gartner Inc	IT	$2,923,136,000	$122,456,000	23.87
News Corp	NWS	$5,147,000,000	$228,000,000	22.57
Davita Inc.	DVA	$6,841,960,000	$333,040,000	20.54
Expedia Group, Inc.	EXPE	$8,120,000,000	$398,000,000	20.40
Charter Communications, Inc.	CHTR	$29,554,000,000	$1,506,000,000	19.62
Discovery, Inc.	DISCA	$13,006,000,000	$681,000,000	19.10
Berkshire Hathaway Inc	BRK	$81,025,000,000	$4,322,000,000	18.75
Microchip Technology Inc	MCHP	$6,663,900,000	$355,900,000	18.72
IHS Markit Ltd.	INFO	$9,836,000,000	$539,200,000	18.24
Cooper Companies, Inc.	COO	$2,392,100,000	$139,900,000	17.10
Conagra Brands Inc.	CAG	$11,460,100,000	$678,400,000	16.89
Cigna Corp	CI	$44,505,000,000	$2,646,000,000	16.82
Qorvo, Inc.	QRVO	$2,173,889,000	$133,125,000	16.33
International Flavors & Fragrances Inc	IFF	$5,378,388,000	$339,781,000	15.83
Fidelity National Information Services, Inc.	FIS	$13,545,000,000	$881,000,000	15.37
Crown Castle International Corp	CCI	$10,078,000,000	$671,000,000	15.02
Campbell Soup Co	CPB	$3,864,000,000	$261,000,000	14.80
Stanley Black & Decker, Inc.	SWK	$8,956,700,000	$605,800,000	14.78
Willis Towers Watson Plc	WLTW	$10,465,000,000	$715,000,000	14.64
Nasdaq, Inc.	NDAQ	$6,363,000,000	$458,000,000	13.89
Equifax Inc	EFX	$4,129,700,000	$306,300,000	13.48
Equinix Inc	EQIX	$4,836,388,000	$365,359,000	13.24
Global Payments Inc	GPN	$6,341,355,000	$484,667,000	13.08
Fedex Corp	FDX	$6,884,000,000	$540,000,000	12.75
Digital Realty Trust, Inc.	DLR	$4,348,007,000	$341,115,000	12.75
Perkinelmer Inc	PKI	$2,952,608,000	$237,927,000	12.41
J M Smucker Co	SJM	$6,310,900,000	$514,400,000	12.27
Iron Mountain Inc	IRM	$4,441,030,000	$364,549,000	12.18
Salesforce.Com, Inc.	CRM	$12,851,000,000	$1,110,000,000	11.58
Schlumberger Limited	SLB	$24,931,000,000	$2,177,000,000	11.45
Kinder Morgan, Inc.	KMI	$21,965,000,000	$1,919,000,000	11.45
Teleflex Inc	TFX	$2,246,579,000	$200,802,000	11.19
Republic Services, Inc.	RSG	$11,400,100,000	$1,037,600,000	10.99
Xerox Holdings Corp	XRX	$3,867,000,000	$374,000,000	10.34
Procter & Gamble Co	PG	$40,273,000,000	$3,966,000,000	10.15
Sealed Air Corp	SEE	$1,947,600,000	$193,100,000	10.09

S&P 500 Companies
Goodwill Balances Greater Than Stockholders Equity
December 31, 2018

Company	Ticker	Goodwill	Stockholders Equity	Equity Minus Goodwill
AbbVie Inc.	ABBV	$15,663,000,000	($8,446,000,000)	($24,109,000,000)
Oracle Corp	ORCL	$43,779,000,000	$22,363,000,000	($21,416,000,000)
CVS HEALTH Corp	CVS	$78,678,000,000	$58,721,000,000	($19,957,000,000)
International Business Machines Corp	IBM	$36,265,000,000	$16,929,000,000	($19,336,000,000)
Philip Morris International Inc.	PM	$7,189,000,000	($10,739,000,000)	($17,928,000,000)
Northrop Grumman Corp	NOC	$18,672,000,000	$8,187,000,000	($10,485,000,000)
Lockheed Martin Corp	LMT	$10,769,000,000	$1,449,000,000	($9,320,000,000)
Mcdonalds Corp	MCD	$2,331,500,000	($6,258,400,000)	($8,589,900,000)
Centurylink, Inc	CTL	$28,031,000,000	$19,828,000,000	($8,203,000,000)
TransDigm Group INC	TDG	$6,223,290,000	($1,808,471,000)	($8,031,761,000)
General Dynamics Corp	GD	$19,594,000,000	$11,732,000,000	($7,862,000,000)
United Technologies Corp	UTX	$48,112,000,000	$40,610,000,000	($7,502,000,000)
Boeing Co	BA	$7,840,000,000	$410,000,000	($7,430,000,000)
General Mills Inc	GIS	$13,995,800,000	$7,367,700,000	($6,628,100,000)
Omnicom Group Inc.	OMC	$9,384,300,000	$3,106,900,000	($6,277,400,000)
Qualcomm Inc	QCOM	$6,498,000,000	$807,000,000	($5,691,000,000)
Firstenergy Corp	FE	$5,618,000,000	$41,000,000	($5,577,000,000)
Iqvia Holdings Inc.	IQV	$11,800,000,000	$6,954,000,000	($4,846,000,000)
Hilton Worldwide Holdings Inc.	HLT	$5,160,000,000	$558,000,000	($4,602,000,000)
Unitedhealth Group Inc	UNH	$58,910,000,000	$54,319,000,000	($4,591,000,000)
American Airlines Group Inc.	AAL	$4,091,000,000	($169,000,000)	($4,260,000,000)
Viacom Inc.	VIA	$11,609,000,000	$7,465,000,000	($4,144,000,000)
Home Depot, Inc.	HD	$2,252,000,000	($1,878,000,000)	($4,130,000,000)
Conagra Brands Inc.	CAG	$11,460,100,000	$7,463,700,000	($3,996,400,000)
Aon plc	AON	$8,171,000,000	$4,219,000,000	($3,952,000,000)
Nielsen Holdings plc	NLSN	$6,987,000,000	$3,043,000,000	($3,944,000,000)
Amerisourcebergen Corp	ABC	$6,664,272,000	$3,049,961,000	($3,614,311,000)
Republic Services, Inc.	RSG	$11,400,100,000	$7,929,500,000	($3,470,600,000)
Cigna Corp	CI	$44,505,000,000	$41,035,000,000	($3,470,000,000)
Fiserv Inc	FISV	$5,702,000,000	$2,293,000,000	($3,409,000,000)
Raytheon Co	RTN	$14,864,000,000	$11,472,000,000	($3,392,000,000)
Fidelity National Information Services, Inc.	FIS	$13,545,000,000	$10,222,000,000	($3,323,000,000)
Sherwin Williams Co	SHW	$6,956,702,000	$3,730,745,000	($3,225,957,000)
Moodys Corp	MCO	$3,781,300,000	$656,500,000	($3,124,800,000)
Western Union Co	WU	$2,725,000,000	($309,800,000)	($3,034,800,000)
Davita Inc.	DVA	$6,841,960,000	$3,908,398,000	($2,933,562,000)
Discovery, Inc.	DISCA	$13,006,000,000	$10,102,000,000	($2,904,000,000)
Kellogg Co	K	$6,050,000,000	$3,159,000,000	($2,891,000,000)
S&P Global Inc.	SPGI	$3,535,000,000	$684,000,000	($2,851,000,000)
Motorola Solutions, Inc.	MSI	$1,514,000,000	($1,276,000,000)	($2,790,000,000)
Autodesk Inc	ADSK	$2,450,800,000	($210,900,000)	($2,661,700,000)
Becton Dickinson & Co	BDX	$23,600,000,000	$20,994,000,000	($2,606,000,000)
Iron Mountain Inc	IRM	$4,441,030,000	$1,862,463,000	($2,578,567,000)
Campbell Soup Co	CPB	$3,864,000,000	$1,373,000,000	($2,491,000,000)
Expedia Group, Inc.	EXPE	$8,120,000,000	$5,651,000,000	($2,469,000,000)
Interpublic Group Of Companies, Inc.	IPG	$4,875,900,000	$2,432,800,000	($2,443,100,000)
Starbucks Corp	SBUX	$3,541,600,000	$1,175,800,000	($2,365,800,000)
Colgate Palmolive Co	CL	$2,530,000,000	$197,000,000	($2,333,000,000)
Sealed Air Corp	SEE	$1,947,600,000	($348,600,000)	($2,296,200,000)
L Brands, Inc.	LB	$1,348,000,000	($865,000,000)	($2,213,000,000)
Amgen Inc	AMGN	$14,699,000,000	$12,500,000,000	($2,199,000,000)
Global Payments Inc	GPN	$6,341,355,000	$4,186,343,000	($2,155,012,000)
Cbs Corp	CBS	$4,920,000,000	$2,804,000,000	($2,116,000,000)
Gartner Inc	IT	$2,923,136,000	$850,757,000	($2,072,379,000)
Cardinal Health Inc	CAH	$8,378,000,000	$6,330,000,000	($2,048,000,000)
Marsh & Mclennan Companies, Inc.	MMC	$9,599,000,000	$7,584,000,000	($2,015,000,000)

S&P 500 Companies
Goodwill Balances Greater Than Stockholders Equity
December 31, 2018

Company	Ticker	Goodwill	Stockholders Equity	Equity Minus Goodwill
L3harris Technologies, Inc.	LHX	$5,340,000,000	$3,363,000,000	($1,977,000,000)
Celgene Corp	CELG	$8,003,000,000	$6,161,000,000	($1,842,000,000)
Autozone Inc	AZO	$302,645,000	($1,520,355,000)	($1,823,000,000)
IHS Markit Ltd.	INFO	$9,836,000,000	$8,020,500,000	($1,815,500,000)
Nrg Energy, Inc.	NRG	$573,000,000	($1,234,000,000)	($1,807,000,000)
MSCI Inc.	MSCI	$1,545,761,000	($166,494,000)	($1,712,255,000)
United Rentals, Inc.	URI	$5,058,000,000	$3,403,000,000	($1,655,000,000)
Roper Technologies Inc	ROP	$9,346,800,000	$7,738,500,000	($1,608,300,000)
Leidos Holdings, Inc.	LDOS	$4,860,000,000	$3,311,000,000	($1,549,000,000)
Kimberly Clark Corp	KMB	$1,474,000,000	($46,000,000)	($1,520,000,000)
CDW Corp	CDW	$2,462,800,000	$975,200,000	($1,487,600,000)
Verisign Inc	VRSN	$52,527,000	($1,385,474,000)	($1,438,001,000)
Sysco Corp	SYY	$3,896,226,000	$2,502,603,000	($1,393,623,000)
Microchip Technology Inc	MCHP	$6,663,900,000	$5,287,500,000	($1,376,400,000)
Illinois Tool Works Inc	ITW	$4,633,000,000	$3,258,000,000	($1,375,000,000)
Mccormick & Co Inc	MKC	$4,527,900,000	$3,182,200,000	($1,345,700,000)
Quest Diagnostics Inc	DGX	$6,563,000,000	$5,267,000,000	($1,296,000,000)
Verisk Analytics, Inc.	VRSK	$3,361,500,000	$2,070,600,000	($1,290,900,000)
Citrix Systems Inc	CTXS	$1,802,670,000	$551,519,000	($1,251,151,000)
Adobe Inc.	ADBE	$10,581,048,000	$9,362,114,000	($1,218,934,000)
Fleetcor Technologies Inc	FLT	$4,542,074,000	$3,340,180,000	($1,201,894,000)
Stanley Black & Decker, Inc.	SWK	$8,956,700,000	$7,839,900,000	($1,116,800,000)
Mckesson Corp	MCK	$9,358,000,000	$8,287,000,000	($1,071,000,000)
Clorox Co	CLX	$1,591,000,000	$559,000,000	($1,032,000,000)
Hp Inc	HPQ	$375,000,000	($639,000,000)	($1,014,000,000)
Analog Devices Inc	ADI	$12,252,604,000	$11,268,173,000	($984,431,000)
Equifax Inc	EFX	$4,129,700,000	$3,155,700,000	($974,000,000)
Nasdaq, Inc.	NDAQ	$6,363,000,000	$5,449,000,000	($914,000,000)
BALL Corp	BLL	$4,475,000,000	$3,562,000,000	($913,000,000)
DOVER Corp	DOV	$3,677,328,000	$2,768,666,000	($908,662,000)
Yum Brands Inc	YUM	$525,000,000	($334,000,000)	($859,000,000)
United Parcel Service Inc	UPS	$3,811,000,000	$3,037,000,000	($774,000,000)
NetApp, Inc.	NTAP	$1,735,000,000	$1,090,000,000	($645,000,000)
Masco Corp	MAS	$692,000,000	$69,000,000	($623,000,000)
Willis Towers Watson Plc	WLTW	$10,465,000,000	$9,971,000,000	($494,000,000)
Coty Inc.	COTY	$5,073,800,000	$4,592,700,000	($481,100,000)
O Reilly Automotive Inc	ORLY	$807,260,000	$353,667,000	($453,593,000)
Hershey Co	HSY	$1,801,103,000	$1,407,266,000	($393,837,000)
Laboratory Corp Of America Holdings	LH	$7,360,300,000	$6,971,400,000	($388,900,000)
Broadridge Financial Solutions, Inc.	BR	$1,500,000,000	$1,127,500,000	($372,500,000)
Perkinelmer Inc	PKI	$2,952,608,000	$2,584,955,000	($367,653,000)
Zoetis Inc.	ZTS	$2,519,000,000	$2,185,000,000	($334,000,000)
Hanesbrands Inc.	HBI	$1,241,727,000	$970,283,000	($271,444,000)
Broadcom Inc.	AVGO	$26,913,000,000	$26,657,000,000	($256,000,000)
Pentair plc	PNR	$2,072,700,000	$1,836,100,000	($236,600,000)
Allegion plc	ALLE	$883,000,000	$654,000,000	($229,000,000)
Idexx Laboratories Inc	IDXX	$214,489,000	($9,233,000)	($223,722,000)
Lamb Weston Holdings, Inc.	LW	$205,900,000	($4,600,000)	($210,500,000)
Pepsico Inc	PEP	$14,808,000,000	$14,602,000,000	($206,000,000)
3M Co	MMM	$10,051,000,000	$9,848,000,000	($203,000,000)
Xylem Inc.	XYL	$2,976,000,000	$2,782,000,000	($194,000,000)
Waste Management Inc	WM	$6,430,000,000	$6,276,000,000	($154,000,000)
Western Digital Corp	WDC	$10,076,000,000	$9,967,000,000	($109,000,000)
Hologic Inc	HOLX	$2,533,200,000	$2,428,800,000	($104,400,000)
Arthur J. Gallagher & Co.	AJG	$4,625,600,000	$4,569,700,000	($55,900,000)
Amphenol Corp	APH	$4,103,200,000	$4,064,200,000	($39,000,000)
		$996,732,815,000	$632,836,166,000	($363,896,649,000)

Appendix C

S&P 500 Companies
Goodwill Balances Greater Than Stockholders Equity
Years to Recoup Equity Minus Goodwill Balances
December 31, 2018

Company	Ticker	Goodwill	Stockholders Equity	Equity Minus Goodwill	Net Income	Years to Recoup	Recoup?
AbbVie Inc.	ABBV	$15,663,000,000	($8,446,000,000)	($24,109,000,000)	$5,687,000,000	4.24	
Oracle Corp	ORCL	$43,779,000,000	$22,363,000,000	($21,416,000,000)	$11,083,000,000	1.93	
CVS HEALTH Corp	CVS	$78,678,000,000	$58,721,000,000	($19,957,000,000)	($596,000,000)	1,000.00	No
International Business Machines Corp	IBM	$36,265,000,000	$16,929,000,000	($19,336,000,000)	$8,728,000,000	2.22	
Philip Morris International Inc.	PM	$7,189,000,000	($10,739,000,000)	($17,928,000,000)	$8,286,000,000	2.16	
Northrop Grumman Corp /DE/	NOC	$18,672,000,000	$8,187,000,000	($10,485,000,000)	$3,229,000,000	3.25	
Lockheed Martin Corp	LMT	$10,769,000,000	$1,449,000,000	($9,320,000,000)	$5,046,000,000	1.85	
Mcdonalds Corp	MCD	$2,331,500,000	($6,258,400,000)	($8,589,900,000)	$5,924,300,000	1.45	
Centurylink, Inc	CTL	$28,031,000,000	$19,828,000,000	($8,203,000,000)	($1,733,000,000)	1,000.00	No
TransDigm Group INC	TDG	$6,223,290,000	($1,808,471,000)	($8,031,761,000)	$957,062,000	8.39	
General Dynamics Corp	GD	$19,594,000,000	$11,732,000,000	($7,862,000,000)	$3,345,000,000	2.35	
United Technologies Corp /DE/	UTX	$48,112,000,000	$40,610,000,000	($7,502,000,000)	$5,269,000,000	1.42	
Boeing Co	BA	$7,840,000,000	$410,000,000	($7,430,000,000)	$10,460,000,000	0.71	
General Mills Inc	GIS	$13,995,800,000	$7,367,700,000	($6,628,100,000)	$1,786,200,000	3.71	
Omnicom Group Inc.	OMC	$9,384,300,000	$3,106,900,000	($6,277,400,000)	$1,440,500,000	4.36	
Qualcomm Inc/DE	QCOM	$6,498,000,000	$807,000,000	($5,691,000,000)	($4,964,000,000)	1,000.00	No
Firstenergy Corp	FE	$5,618,000,000	$41,000,000	($5,577,000,000)	$1,348,000,000	4.14	
Iqvia Holdings Inc.	IQV	$11,800,000,000	$6,954,000,000	($4,846,000,000)	$284,000,000	17.06	No
Hilton Worldwide Holdings Inc.	HLT	$5,160,000,000	$558,000,000	($4,602,000,000)	$769,000,000	5.98	
Unitedhealth Group Inc	UNH	$58,910,000,000	$54,319,000,000	($4,591,000,000)	$12,382,000,000	0.37	
American Airlines Group Inc.	AAL	$4,091,000,000	($169,000,000)	($4,260,000,000)	$1,412,000,000	3.02	
Viacom Inc.	VIA	$11,609,000,000	$7,465,000,000	($4,144,000,000)	$1,759,000,000	2.36	
Home Depot, Inc.	HD	$2,252,000,000	($1,878,000,000)	($4,130,000,000)	$11,121,000,000	0.37	
Conagra Brands Inc.	CAG	$11,460,100,000	$7,463,700,000	($3,996,400,000)	$678,400,000	5.89	
Aon plc	AON	$8,171,000,000	$4,219,000,000	($3,952,000,000)	$1,174,000,000	3.37	
Nielsen Holdings plc	NLSN	$6,987,000,000	$3,043,000,000	($3,944,000,000)	($700,000,000)	1,000.00	No
Amerisourcebergen Corp	ABC	$6,664,272,000	$3,049,961,000	($3,614,311,000)	$1,615,892,000	2.24	
Republic Services, Inc.	RSG	$11,400,100,000	$7,929,500,000	($3,470,600,000)	$1,037,600,000	3.34	
Cigna Corp	CI	$44,505,000,000	$41,035,000,000	($3,470,000,000)	$2,646,000,000	1.31	
Fiserv Inc	FISV	$5,702,000,000	$2,293,000,000	($3,409,000,000)	$1,187,000,000	2.87	
Raytheon Co/	RTN	$14,864,000,000	$11,472,000,000	($3,392,000,000)	$2,882,000,000	1.18	
Fidelity National Information Services, Inc.	FIS	$13,545,000,000	$10,222,000,000	($3,323,000,000)	$881,000,000	3.77	
Sherwin Williams Co	SHW	$6,956,702,000	$3,730,745,000	($3,225,957,000)	$1,108,746,000	2.91	
Moodys Corp /DE/	MCO	$3,781,300,000	$656,500,000	($3,124,800,000)	$1,319,400,000	2.37	
Western Union CO	WU	$2,725,000,000	($309,800,000)	($3,034,800,000)	$851,900,000	3.56	
Davita Inc.	DVA	$6,841,960,000	$3,908,398,000	($2,933,562,000)	$333,040,000	8.81	
Discovery, Inc.	DISCA	$13,006,000,000	$10,102,000,000	($2,904,000,000)	$681,000,000	4.26	
Kellogg Co	K	$6,050,000,000	$3,159,000,000	($2,891,000,000)	$1,344,000,000	2.15	
S&P Global Inc.	SPGI	$3,535,000,000	$684,000,000	($2,851,000,000)	$2,121,000,000	1.34	
Motorola Solutions, Inc.	MSI	$1,514,000,000	($1,276,000,000)	($2,790,000,000)	$969,000,000	2.88	
Autodesk Inc	ADSK	$2,450,800,000	($210,900,000)	($2,661,700,000)	($80,800,000)	1,000.00	No
Becton Dickinson & Co	BDX	$23,600,000,000	$20,994,000,000	($2,606,000,000)	$311,000,000	8.38	
Iron Mountain Inc	IRM	$4,441,030,000	$1,862,463,000	($2,578,567,000)	$364,549,000	7.07	
Campbell Soup Co	CPB	$3,864,000,000	$1,373,000,000	($2,491,000,000)	$261,000,000	9.54	
Expedia Group, Inc.	EXPE	$8,120,000,000	$5,651,000,000	($2,469,000,000)	$398,000,000	6.20	
Interpublic Group Of Companies, Inc.	IPG	$4,875,900,000	$2,432,800,000	($2,443,100,000)	$637,700,000	3.83	
Starbucks Corp	SBUX	$3,541,600,000	$1,175,800,000	($2,365,800,000)	$4,518,000,000	0.52	
Colgate Palmolive Co	CL	$2,530,000,000	$197,000,000	($2,333,000,000)	$2,558,000,000	0.91	
Sealed Air Corp/DE	SEE	$1,947,600,000	($348,600,000)	($2,296,200,000)	$193,100,000	11.89	No
L Brands, Inc.	LB	$1,348,000,000	($865,000,000)	($2,213,000,000)	$644,000,000	3.44	
Amgen Inc	AMGN	$14,699,000,000	$12,500,000,000	($2,199,000,000)	$8,394,000,000	0.26	
Global Payments Inc	GPN	$6,341,355,000	$4,186,343,000	($2,155,012,000)	$484,667,000	4.45	
Cbs Corp	CBS	$4,920,000,000	$2,804,000,000	($2,116,000,000)	$1,960,000,000	1.08	
Gartner Inc	IT	$2,923,136,000	$850,757,000	($2,072,379,000)	$122,456,000	16.92	No
Cardinal Health Inc	CAH	$8,378,000,000	$6,330,000,000	($2,048,000,000)	$1,365,000,000	1.50	
Marsh & Mclennan Companies, Inc.	MMC	$9,599,000,000	$7,584,000,000	($2,015,000,000)	$1,670,000,000	1.21	

S&P 500 Companies
Goodwill Balances Greater Than Stockholders Equity
Years to Recoup Equity Minus Goodwill Balances
December 31, 2018

Company	Ticker	Goodwill	Stockholders Equity	Equity Minus Goodwill	Net Income	Years to Recoup	Recoup?
L3harris Technologies, Inc.	LHX	$5,340,000,000	$3,363,000,000	($1,977,000,000)	$949,000,000	2.08	
Celgene Corp	CELG	$8,003,000,000	$6,161,000,000	($1,842,000,000)	$4,046,000,000	0.46	
Autozone Inc	AZO	$302,645,000	($1,520,355,000)	($1,823,000,000)	$1,337,536,000	1.36	
IHS Markit Ltd.	INFO	$9,836,000,000	$8,020,500,000	($1,815,500,000)	$539,200,000	3.37	
Nrg Energy, Inc.	NRG	$573,000,000	($1,234,000,000)	($1,807,000,000)	$268,000,000	6.74	
MSCI Inc.	MSCI	$1,545,761,000	($166,494,000)	($1,712,255,000)	$507,885,000	3.37	
United Rentals, Inc.	URI	$5,058,000,000	$3,403,000,000	($1,655,000,000)	$1,096,000,000	1.51	
Roper Technologies Inc	ROP	$9,346,800,000	$7,738,500,000	($1,608,300,000)	$944,400,000	1.70	
Leidos Holdings, Inc.	LDOS	$4,860,000,000	$3,311,000,000	($1,549,000,000)	$582,000,000	2.66	
Kimberly Clark Corp	KMB	$1,474,000,000	($46,000,000)	($1,520,000,000)	$1,445,000,000	1.05	
CDW Corp	CDW	$2,462,800,000	$975,200,000	($1,487,600,000)	$643,000,000	2.31	
Verisign Inc	VRSN	$52,527,000	($1,385,474,000)	($1,438,001,000)	$582,489,000	2.47	
Sysco Corp	SYY	$3,896,226,000	$2,502,603,000	($1,393,623,000)	$1,674,271,000	0.83	
Microchip Technology Inc	MCHP	$6,663,900,000	$5,287,500,000	($1,376,400,000)	$355,900,000	3.87	
Illinois Tool Works Inc	ITW	$4,633,000,000	$3,258,000,000	($1,375,000,000)	$2,563,000,000	0.54	
Mccormick & Co Inc	MKC	$4,527,900,000	$3,182,200,000	($1,345,700,000)	$933,400,000	1.44	
Quest Diagnostics Inc	DGX	$6,563,000,000	$5,267,000,000	($1,296,000,000)	$788,000,000	1.64	
Verisk Analytics, Inc.	VRSK	$3,361,500,000	$2,070,600,000	($1,290,900,000)	$598,700,000	2.16	
Citrix Systems Inc	CTXS	$1,802,670,000	$551,519,000	($1,251,151,000)	$575,667,000	2.17	
Adobe Inc.	ADBE	$10,581,048,000	$9,362,114,000	($1,218,934,000)	$2,590,774,000	0.47	
Fleetcor Technologies Inc	FLT	$4,542,074,000	$3,340,180,000	($1,201,894,000)	$811,483,000	1.48	
Stanley Black & Decker, Inc.	SWK	$8,956,700,000	$7,839,900,000	($1,116,800,000)	$605,800,000	1.84	
Mckesson Corp	MCK	$9,358,000,000	$8,287,000,000	($1,071,000,000)	$255,000,000	4.20	
Clorox Co	CLX	$1,591,000,000	$559,000,000	($1,032,000,000)	$820,000,000	1.26	
Hp Inc	HPQ	$375,000,000	($639,000,000)	($1,014,000,000)	$5,327,000,000	0.19	
Analog Devices Inc	ADI	$12,252,604,000	$11,268,173,000	($984,431,000)	$1,495,432,000	0.66	
Equifax Inc	EFX	$4,129,700,000	$3,155,700,000	($974,000,000)	$306,300,000	3.18	
Nasdaq, Inc.	NDAQ	$6,363,000,000	$5,449,000,000	($914,000,000)	$458,000,000	2.00	
Ball Corp	BLL	$4,475,000,000	$3,562,000,000	($913,000,000)	$453,000,000	2.02	
Dover Corp	DOV	$3,677,328,000	$2,768,666,000	($908,662,000)	$570,267,000	1.59	
Yum Brands Inc	YUM	$525,000,000	($334,000,000)	($859,000,000)	$1,542,000,000	0.56	
United Parcel Service Inc	UPS	$3,811,000,000	$3,037,000,000	($774,000,000)	$4,791,000,000	0.16	
NetApp, Inc.	NTAP	$1,735,000,000	$1,090,000,000	($645,000,000)	$1,169,000,000	0.55	
Masco Corp	MAS	$692,000,000	$69,000,000	($623,000,000)	$784,000,000	0.79	
Willis Towers Watson Plc	WLTW	$10,465,000,000	$9,971,000,000	($494,000,000)	$715,000,000	0.69	
Coty Inc.	COTY	$5,073,800,000	$4,592,700,000	($481,100,000)	($3,769,600,000)	No	No
O Reilly Automotive Inc	ORLY	$807,260,000	$353,667,000	($453,593,000)	$1,324,487,000	0.34	
Hershey Co	HSY	$1,801,103,000	$1,407,266,000	($393,837,000)	$1,171,051,000	0.34	
Laboratory Corp Of America Holdings	LH	$7,360,300,000	$6,971,400,000	($388,900,000)	$883,900,000	0.44	
Broadridge Financial Solutions, Inc.	BR	$1,500,000,000	$1,127,500,000	($372,500,000)	$482,100,000	0.77	
Perkinelmer Inc	PKI	$2,952,608,000	$2,584,955,000	($367,653,000)	$237,927,000	1.55	
Zoetis Inc.	ZTS	$2,519,000,000	$2,185,000,000	($334,000,000)	$1,424,000,000	0.23	
Hanesbrands Inc.	HBI	$1,241,727,000	$970,283,000	($271,444,000)	$553,084,000	0.49	
Broadcom Inc.	AVGO	$26,913,000,000	$26,657,000,000	($256,000,000)	$12,610,000,000	0.02	
PENTAIR plc	PNR	$2,072,700,000	$1,836,100,000	($236,600,000)	$347,400,000	0.68	
Allegion plc	ALLE	$883,000,000	$654,000,000	($229,000,000)	$435,400,000	0.53	
Idexx Laboratories Inc	IDXX	$214,489,000	($9,233,000)	($223,722,000)	$377,047,000	0.59	
Lamb Weston Holdings, Inc.	LW	$205,900,000	($4,600,000)	($210,500,000)	$487,200,000	0.43	
Pepsico Inc	PEP	$14,808,000,000	$14,602,000,000	($206,000,000)	$12,559,000,000	0.02	
3M Co	MMM	$10,051,000,000	$9,848,000,000	($203,000,000)	$5,363,000,000	0.04	
Xylem Inc.	XYL	$2,976,000,000	$2,782,000,000	($194,000,000)	$549,000,000	0.35	
Waste Management Inc	WM	$6,430,000,000	$6,276,000,000	($154,000,000)	$1,923,000,000	0.08	
Western Digital Corp	WDC	$10,076,000,000	$9,967,000,000	($109,000,000)	($754,000,000)	No	No
Hologic Inc	HOLX	$2,533,200,000	$2,428,800,000	($104,400,000)	($111,300,000)	No	No
Arthur J. Gallagher & Co.	AJG	$4,625,600,000	$4,569,700,000	($55,900,000)	$675,900,000	0.08	
Amphenol Corp	APH	$4,103,200,000	$4,064,200,000	($39,000,000)	$1,216,900,000	0.03	