

August 30, 2023

Ms. Kris Nathanail
Senior Policy Advisor for Special Projects
International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
Spain

RE: Consultation on Goodwill

Dear Ms. Nathanail:

CFA Institute¹ appreciates the opportunity to comment and provide our perspectives on the International Organization of Securities Commissions (“IOSCO”) Exposure Draft, [Consultation on Goodwill](#) (the “Consultation”).

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. We are 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.

OUR PREVIOUS COMMENTARY

Our Previous Commentary to FASB and IASB

Over the last several years, CFA Institute has issued comment letters to both the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) with respect to their consultations on the accounting and disclosures related to goodwill. Our comment letters are provided at the links below:

- FASB Invitation to Comment (ITC): [Identifiable Intangible Assets and Subsequent Accounting for Goodwill](#) (January 2020)
- IASB Discussion Paper (DP): [Business Combinations – Disclosures, Goodwill, and Impairment](#) (December 2020)

¹ With offices in Charlottesville, New York, Washington, DC, Brussels, Hong Kong, Mumbai, Beijing, Shanghai, Abu Dhabi and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

Our interest on this topic began when the FASB considered moving toward amortization of goodwill. We view amortization as the “zero information approach”. Amortization is a retreat to the past rather than an enhancement in financial reporting. We were and are more supportive of the IASB’s approach – retaining impairment testing while enhancing disclosures.

While some point to the fact that management (and investors) add back amortization and impairment charges as an indication that they are both either non-cash or not decision-useful, this add-back simply reflects the need to revise the cash flow statement (i.e., to a direct cash flow method), rather than the fact that these items have the same information content simply because they are added back to net income in arriving at EBITDA.

Amortization has no information content – it is a systematic amortization of goodwill over a period of time that has no economic meaning.

Impairment, in contrast, is a comparison of the goodwill to the fair value of the net assets acquired in a business combination post-acquisition and provides decision-useful information to investors on how well management allocates capital.

We do not view impairment charges as “non-cash charges” as they are commonly referred to in company press releases. Quite the contrary. They are a reflection that past cash (capital) of the enterprise was not effectively utilized when effectuating the business combination. This is why they are decision useful.

We believe impairment testing is effective – the challenge may be that it is too effective – and that the moral hazard of management evaluating their own acquisition decisions is what results in what IOSCO refers to as the “too little, too late” approach.

As our letters highlight, the fact that investors impair goodwill long before management suggests that it is not impairment testing that is the issue, but management. With far less information, investors take decisions regarding the impairment of goodwill sooner than does management. (See box to right excerpted from our thought leadership described below.)

We support improved disclosures as a means of holding management more accountable for the

judgements and estimates they make and enabling investors – and securities regulators – to press management on these decisions. This is why we have supported improving disclosures regarding

Cost Versus Benefit: The Market's Recognition of Impairments Before Management

In our 2019 FASB Goodwill ITC Letter, we noted that the assumption that the cost of impairment testing is higher than the benefit is inconsistent with the notion that the market participants (outsiders) are making more timely impairment recognition than management is making. Said differently, if impairment testing is so costly, how can outsiders do it (and do it more timely) than management? Investors are incurring the cost of impairment testing—and they think the benefit of taking the time to perform the test is worth the cost.

We asked investors whether they thought impairments were recognized in a company’s share price before the impairment is announced by management. As illustrated in **Charts 18A** and **18B** in **Section II.C.1 (Impairment)**, 52% of investors agreed that the market recognized impairments more timely than management, with only 23% disagreeing and 25% neither agreeing or disagreeing. One respondent noted the following:

Goodwill is a plug meant to ensure that balance sheets balance. Amortization is an “easy” approach, but not particularly illuminating. Impairments may be more “accurate”, but it relies on management judgment, and is likely to lag market moves. That is, the market will reprice for the impairment charge before the company actually recognizes the impairment on its financial statements.

business combinations at the date of acquisition and over time rather than reverting to amortization.

Our comment letters, particularly the FASB letter, highlight the analytical content we gathered on the size of goodwill balances back in 2018/2019 in support of our comment letter – including highlighting goodwill balances as a percentage of assets and equity of the S&P500; companies with no equity when goodwill was netted against equity; and an assessment of the impact on earnings of amortizing goodwill over a ten-year period. The FASB had not provided any such analytical content. We also note that the FASB had no plan as to what to do with the enormous amount of goodwill at transition. Amortizing goodwill would mean writing off 40% of the equity of the S&P 500. We would refer you to that analysis. Prior to the provision of that information at the time by CFA Institute, the FASB had not provided stakeholders with the potential magnitude of the change they were considering.

Our comment letter, later in 2020, to the IASB highlighted many of these same views.

We were pleased when the FASB dropped consideration of goodwill amortization in early 2022, followed by the IASB in late 2022.

Thought Leadership: Investor Perspectives on Goodwill

Because we knew our members would be interested in this topic, we performed a survey of our members globally in 2020 to obtain their views regarding the initial and subsequent accounting for goodwill and their views on the disclosure improvements they believed were necessary. Our paper, *Goodwill: Investor Perspectives*, which provided our investor member views was released in late 2021 and heavily promoted on social media tiles as highlighted via the tiles below:

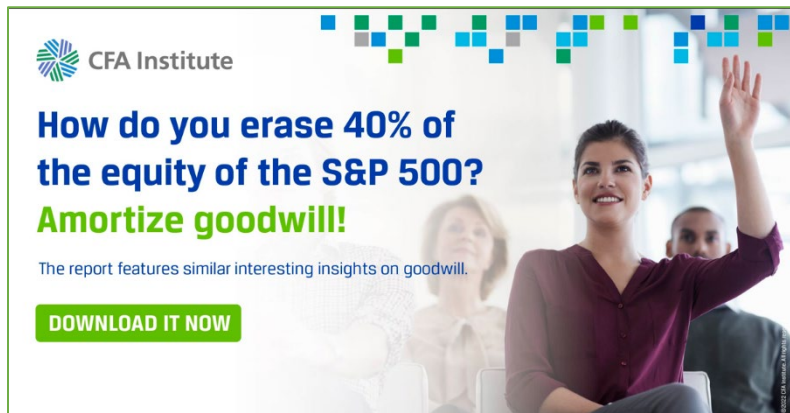


CFA Institute

INVESTORS WORLDWIDE SHARE THEIR VIEWS WITH IASB AND FASB

[READ THE REPORT](#)

#Goodwill should not be amortized



CFA Institute

How do you erase 40% of the equity of the S&P 500?
Amortize goodwill!

The report features similar interesting insights on goodwill.

[DOWNLOAD IT NOW](#)

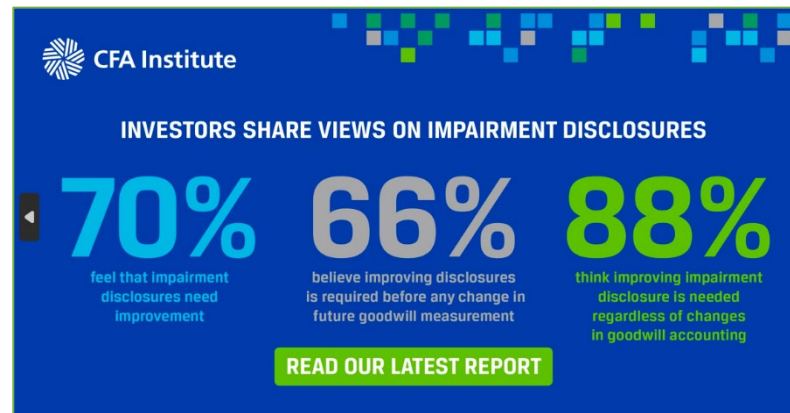


CFA Institute

TAKEAWAYS FROM AN INVESTOR SURVEY ON GOODWILL ACCOUNTING

[FIND OUT MORE](#)

GOODWILL: INVESTOR PERSPECTIVES
IMPROVE DISCLOSURES, RATHER THAN REVERT TO AMORTIZATION
Sandra J. Peters, CPA, CFA
Head of Financial Reporting Policy
CFA Institute, New York



CFA Institute

INVESTORS SHARE VIEWS ON IMPAIRMENT DISCLOSURES

70% feel that impairment disclosures need improvement

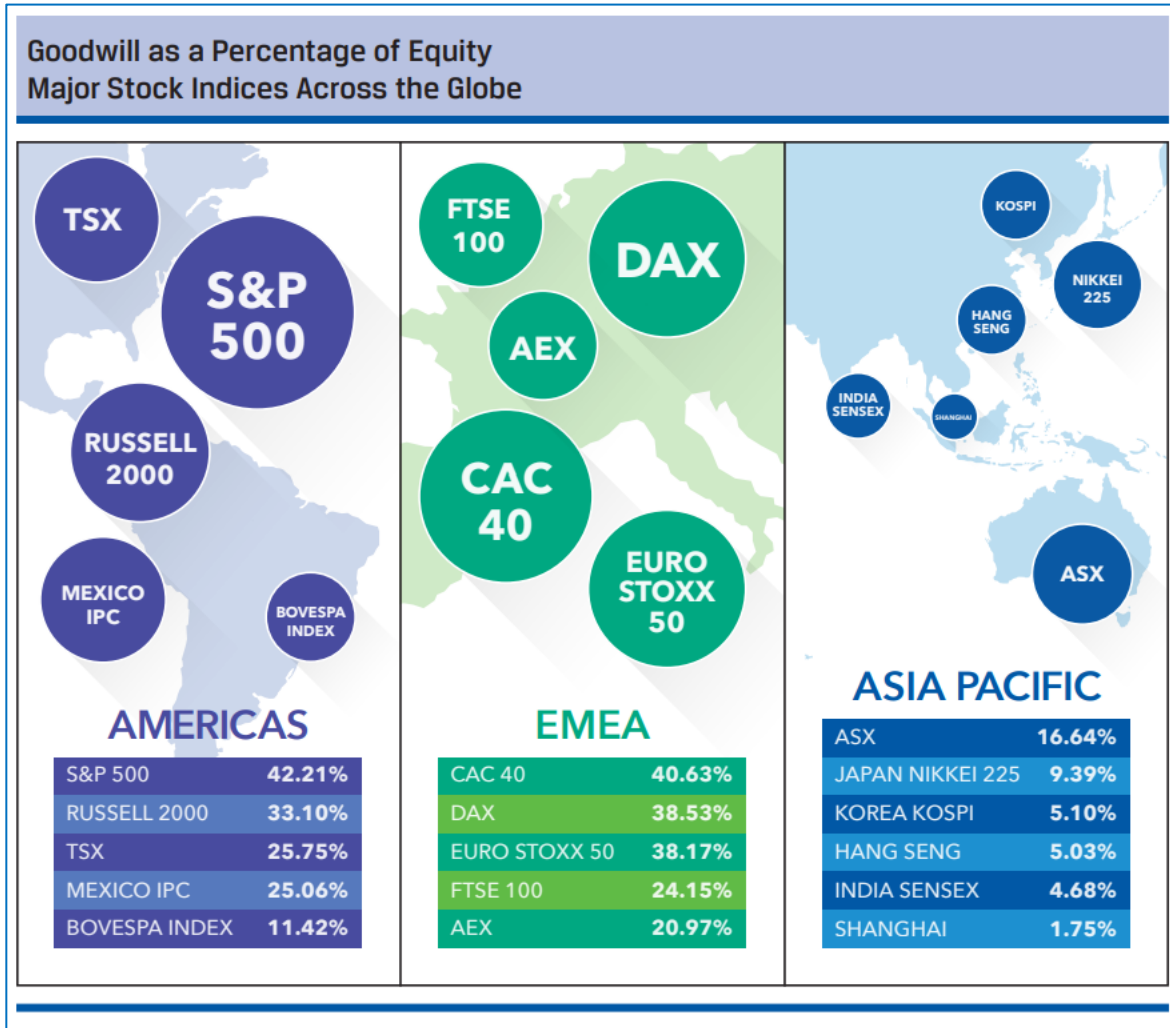
66% believe improving disclosures is required before any change in future goodwill measurement

88% think improving impairment disclosure is needed regardless of changes in goodwill accounting

[READ OUR LATEST REPORT](#)

The Size of Goodwill Balances Globally

In the aforementioned paper, we also provided an analysis of goodwill balances globally. This highlighted that many western economies have large goodwill balances. Only in Asia Pacific are goodwill balances small as a percentage of equity. See the picture and table – excerpted from that paper – which follow:



2019 FactSet Data for Goodwill Balances for Key Global Indices

(Currency in Millions)

Country & Index	Currency	Companies Per Index	Net Goodwill	Total Assets	Net Goodwill	Total Equity	Net Goodwill	Total Equity Less Net Goodwill	Negative Equity Companies #	%
					Total Assets		Total Equity			
<i>Australia</i>										
ASX All Ordinaries	Australian Dollar	500	183,424	6,304,481	2.9%	1,102,298	16.64%	918,834	43	8.60%
<i>Asia</i>										
Shanghai Composite Index	Chinese Yuan (CNY)	1,558	537,929	246,451,728	0.22%	30,762,848	1.75%	30,224,918	5	0.32%
Korea KOSPI Index	Korean Won (KRW)	799	79,382,901	6,789,648,604	1.17%	1,557,258,228	5.10%	1,477,875,327	9	1.13%
Japan Nikkei 225	Japanese Yen	225	28,694,668	2,196,916,593	1.3%	305,490,414	9.39%	276,795,746	1	0.44%
Hang Seng	Hong Kong Dollar (HKD)	55	1,121,494	170,452,909	0.66%	22,309,244	5.03%	21,187,750	—	—
<i>India</i>										
India SENSEX	Indian Rupee	30	1,142,830	138,786,803	0.82%	24,422,574	4.68%	23,279,744	—	—
<i>United Kingdom</i>										
FTSE 100	British Pound	101	307,321	10,503,034	2.93%	1,272,450	24.15%	965,130	17	16.83%
<i>Europe</i>										
Euro Stoxx 50	Euro	50	699,370	11,578,636	5.69%	1,727,504	38.17%	1,068,133	4	8.00%
France CAC 40	Euro	40	399,376	8,093,800	4.93%	983,058	40.63%	583,682	5	12.50%
German DAX	Euro	30	325,663	5,210,466	6.25%	845,280	38.53%	519,617	3	10.00%
Netherlands AEX	Euro	25	97,682	2,458,649	3.97%	465,739	20.97%	368,057	3	12.00%
<i>United States</i>										
S&P 500	US Dollar	505	3,489,895	37,362,118	9.34%	8,268,332	42.21%	4,778,437	116	22.97%
Russell 2000	US Dollar	2,056	390,300	5,119,992	7.62%	1,179,104	33.10%	788,804	259	12.60%
<i>Canada</i>										
TSX	Canadian Dollar	720	400,266	11,138,476	3.59%	1,554,291	25.75%	1,154,025	80	11.11%
<i>Latin America</i>										
Mexico IPC Index	Mexican Peso	15	672,313	9,433,637	7.13%	2,683,222	25.06%	2,000,909	2	5.71%
Brazil Bovespa Index	Brazilian Real	82	254,388	11,528,269	2.21%	2,226,616	11.42%	1,972,228	7	8.54%

RESPONSES TO CONSULTATION QUESTIONS

The charts and graphs in our paper, *Goodwill: Investor Perspectives*, respond to many of the questions posed to investors in Chapter 4 of IOSCO’s Consultation, specifically Questions #2-#9 under Item 4.2. We touch on those questions below and highlight the sections of our paper which we believe address the points being queried. We suggest you read the entire paper for complete context.

Question #2: Our survey questions were not US GAAP or IFRS specific as investors seek economic reality over accounting differences. See Section C.1 on Impairment (Pages 59 to 81).

Question #3: See Section B on Initial Recognition (Page 42 to 50) and Section D on Disclosures (Pages 101 to 115).

Specifically consider Charts 42 and 45 (excerpted here) and investor comments on disclosures in Box 12.

Question #4: Broadly. See investor comments in Box 12 in Section D on Disclosures (Pages 101 to 115).

Question #5: No. See Section D on Disclosures (Pages 101 to 115). See also Chart 42 excerpted here.

Question #6: We did not specifically query this position, but generally this would be the case when investors recognize impairment before management.

Question #7: No. Disclosures at acquisition are sparse. See Section B on Initial Recognition (Page 42 to 50) and Section D on Disclosures (Pages 101 to 115).

Current Disclosures Are Not Useful

We asked investors what they thought about current impairment disclosures. Overwhelmingly, investors indicated impairment disclosures needed improvement, with 70% indicating impairment disclosures were in need of improvement (59%) or drastic improvement (11%). See **Chart 42**.

Chart 42. Usefulness of Current Impairment Disclosures

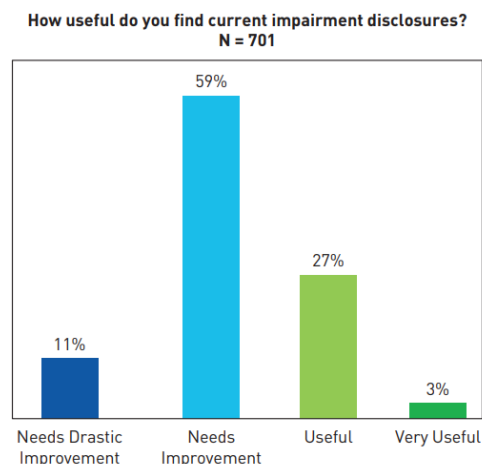
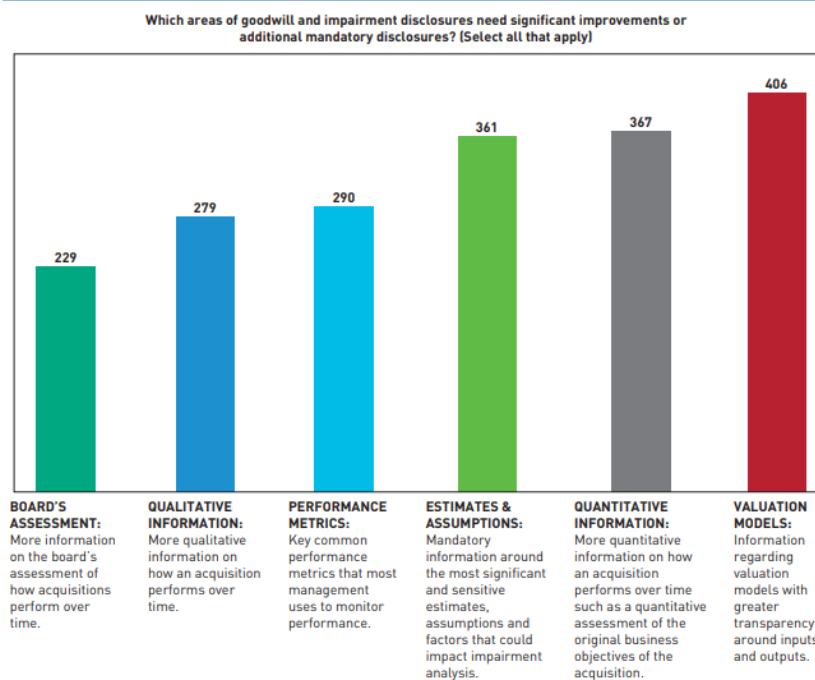


Chart 45. Need for Disclosure Improvements That Facilitate Independent Assessment



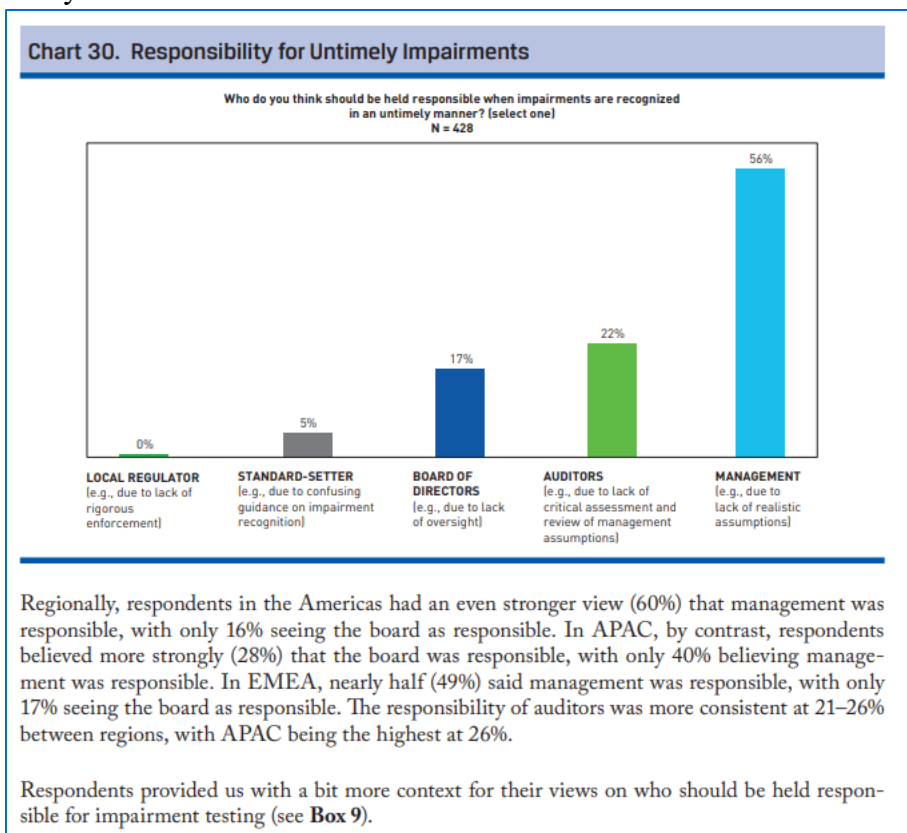
Question #8: See Section D on Disclosures (Pages 101 to 115). See response to Question #3 above.

Question #9: KAMs or CAMs provide no more specific disclosures on acquisitions than are included in footnotes. As such, the deficiency in goodwill disclosures carry forward to KAMs or CAMs. Without better disclosures investors and regulators can't assess the quality of KAMs or CAMs.

Additional Comment on Responsibility for Impairment Testing: We would also refer you to Chart 30 on Pages 78-80 regarding management versus audit committee/board, auditor responsibility, standard setter, and regulator responsibility for goodwill impairment testing.

Investors also told us they want to know how the board assesses the performance of acquisitions. This is the level of information they desire.

Overall, we believe that securities regulators have an important enforcement role to play – even if additional disclosures are provided. Enforcement is an important key to ensuring impairment – and the disclosures are effective.





* * * * *

Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at +1.347.413.0774 or at sandra.peters@cfainstitute.org.

Sincerely,

A handwritten signature in black ink that reads "Sandra J. Peters". The signature is written in a cursive style with a large initial "S".

/s/ Sandra J. Peters

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