



CFA Institute

GOODWILL: INVESTOR PERSPECTIVES

IMPROVE DISCLOSURES,
RATHER THAN REVERT TO AMORTIZATION



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Overview

Goodwill balances in the United States and globally are much larger than many realize. As the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) discuss a change in goodwill accounting (i.e., a move away from impairment only to amortization), we believe it is essential for standard setters to contextualize the size of any change, and when making a decision, to consider not only the technical accounting merits, but also the impact of any change on the financial statements of corporations in the United States and globally, as well as the implication of the IASB and FASB reaching different conclusions on the comparability of companies globally. Standard setters must perform an appropriate cost-benefit analysis and ensure that any change will meet the criteria (i.e., enhancing the decision-usefulness of financial statements) before making a financial reporting change. Currently, the FASB is trending toward a move to amortization with a 10-year default amortization period, and the IASB is moving toward retaining impairment with an improvement in disclosures.

To ensure that a change will meet the criteria of improving financial reporting, CFA Institute undertook a member survey of portfolio managers and analysts to collect their views on the nature of goodwill at its initial recognition and to identify whether they view impairment or amortization as more decision-useful to investment decision making. We also asked respondents their views on the usefulness of existing disclosures and necessary improvements. We asked their preference for the best way forward for policymakers, their desire for a converged solution, and several cost-benefit questions. The Executive Summary and the respective sections of this paper provide more detail, but in overarching terms, we found the following:

- ***Desired Path Forward:*** A majority of respondents (58%) supported retaining impairment, and only 31% supported the introduction of amortization.
- ***IASB and FASB Convergence:*** Respondents were in raging agreement that the IASB and FASB should follow the same approach in the accounting for goodwill (90%) and in the subsequent measurement of goodwill (94%).
- ***Goodwill: A Wasting or Non-wasting Asset?*** A majority of investors (75%) agreed goodwill was an asset. Investors also believe goodwill can represent different things depending on the nature of acquisition and the industry in which the acquisition takes place. A significant minority (45–50%) said goodwill is a wasting asset, but they (53%) do not necessarily believe goodwill decreases in value over time. Investors (75%) believe goodwill can have wasting and non-wasting elements. Most investors (71%) who believe goodwill is an asset do not believe it should be eliminated against equity at acquisition.

- **Intangibles:** Investors highlighted that the current accounting model needs to be updated to reflect the increasing importance of intangibles, that the move from a manufacturing to a service economy makes this more important and evident, and that a resolution is needed between the accounting for acquired versus internally generated intangibles.
- **Impairment:** Investors are focused on information about how the acquisition that created the goodwill asset has performed. As it relates to impairment versus amortization, investors do not believe that transparency and rigor are sufficient regarding the nature of the impairment test and the level at which it is performed. As it relates to the timeliness of impairment charges, (a) 72% recognized that impairment charges are not taken timely; (b) 89% said that impairment charges would be more meaningful if taken more timely; (c) 52% said that the market recognizes impairments before company management; and (d) 64% noted that impairments taken in the first five years are more meaningful because such a charge reflects that an acquisition went badly, very quickly. Given investor views regarding timeliness and the lack of sensitivity, it is unusual that the FASB is considering moving the impairment test from a more detailed (reporting unit) level to a higher (segment) level. This move is inconsistent with improving the quality of impairment testing and making it more timely or more sensitive.
 - While acknowledging that impairment testing is not as timely as needed, investors (74–77%) also told us that impairment is decision-useful and, overall, investors see impairment as having information content.
 - Investors believed management should be principally responsible for impairment testing (56%), and they want more information to be able to hold management accountable.
 - Regarding the cost of impairment testing, 73% of investors said that it is a cost they are willing to bear.
- **Amortization:** Investors told us that amortization is an inferior model because it (a) does not allow the discernment between good and bad managers and their acquisitive abilities (61%), (b) distorts financial metrics (63%), and (c) does not provide decision-useful information for investment analysis (50%). Investor support for amortization stems from the fact that amortization is an administratively convenient cure (61%) for untimely impairment recognition (46%), but it does not improve matching of the cost of an acquisition with future revenues from the acquisition (38%).

Some support for amortization stemmed from a view that goodwill erodes over time, that impairment is subjective, and that amortization is more predictable. Other respondents told us that amortization is not decision-useful, has no predictive value, is an accounting gimmick, distorts returns, gets added back and reduces decision-usefulness of financial reporting (US GAAP and IFRS), and is ignored by investors as it has no information content. Regarding

a preferred amortization method or period, 75% of respondents wanted a method other than a fixed amortization period, such as the 10-year period considered by FASB. This default method was the least favored by investors (22%).

- **Disclosures:** Respondents told us the current disclosures related to goodwill and its impairment are not useful (70%), that they want improvement in disclosures before any changes in impairment accounting (66%), and that they want improvements in such disclosures irrespective of a change in the accounting model (88%). Overall, investors noted a need for more information to make an independent assessment of an acquisition's success. They also noted the need for several improvements related to impairment and prioritized valuations models and related estimates and assumptions as the most important.

Executive Summary

The Long-Standing Debate About Goodwill

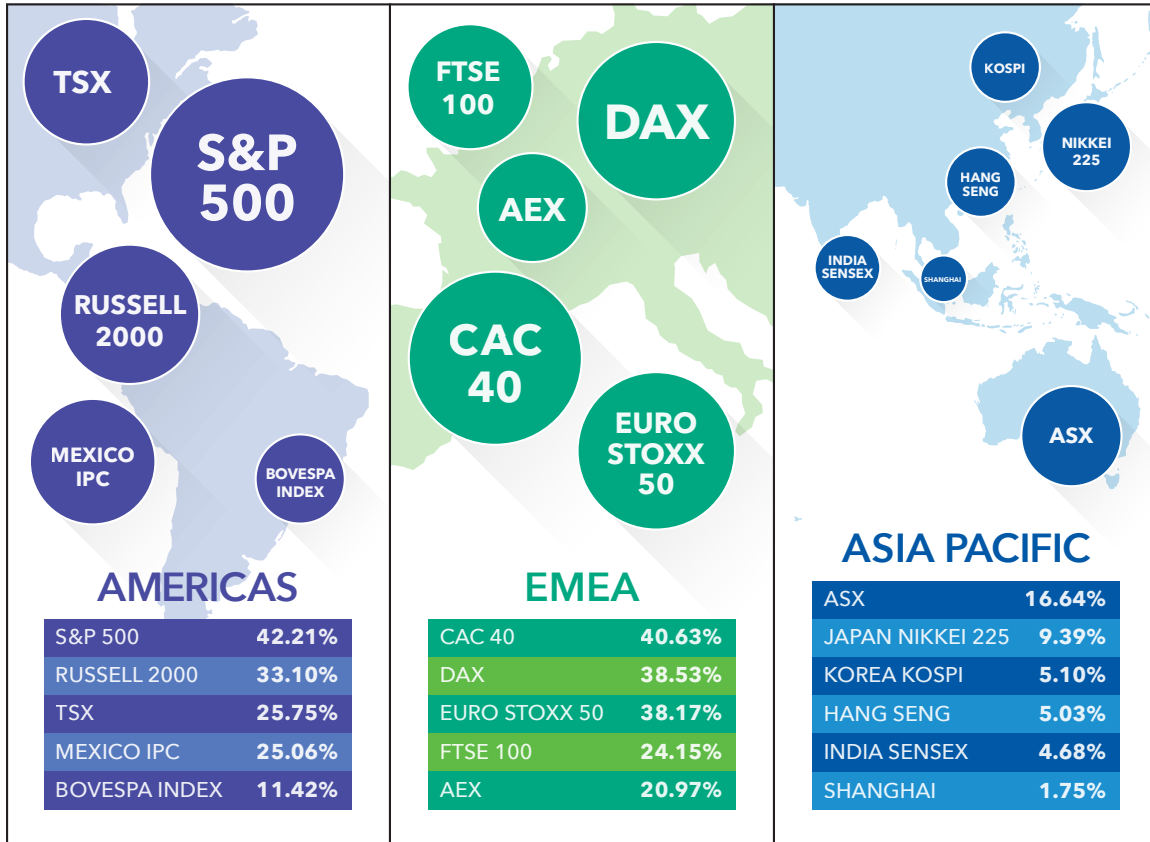
The accounting for and reporting of business combinations can be challenging for preparers, auditors, and investors. Goodwill (the excess of purchase price over the fair value of acquired net assets) has been under nearly constant debate since the issuance of the first accounting standard addressing goodwill in 1944. For investors, just when the debate seemed settled, it was re-opened by standard setters. In 1970, the accounting methodology required periodic amortization over no more than 40 years. In 2001, the Financial Accounting Standards Board (FASB) replaced the amortization methodology requiring, instead, retention of goodwill, subject to its impairment (when the implied fair value of the net assets falls below the carrying amount of goodwill). A similar standard was put in internationally by the International Accounting Standards Board (IASB). Over the years, preparers have complained that such impairment testing is, essentially, too difficult. This nearly constant refrain has led the FASB to re-open the debate with an apparent intent to roll back the clock to 1970 and return to amortization in a view toward “simplification.” Internationally, the IASB also has re-opened the debate, but with a different proposed solution—better disclosures. This paper provides an investor take on this debate and the best path forward.

Contextualizing the Size of the Goodwill Accounting Debate

Move to Amortization = Write-off of 30–40% of the Equity of the Largest US Corporations

Goodwill balances in the United States are much larger than many realize. As we noted in our comment letter to the 2019 Financial Accounting Standards Board (FASB) Goodwill Invitation to Comment (Goodwill ITC), based on 2018 figures, goodwill amounted to \$5.6 trillion or 32% of the equity of all US public companies and \$3.3 trillion or 41% of the equity of the S&P 500. This same goodwill represented 5.82% and 9.28%, respectively, of the assets of these same companies. A move by FASB, as it is currently headed, to amortize goodwill over a fixed period of 10 years—to match private company accounting—would reduce the net income of the S&P 500 by \$330 billion (i.e., \$560 billion for all public companies) every year for 10 years—if the transition occurs over a 10-year period. Or, it would immediately reduce equity by 30–40%, if goodwill is netted against equity at transition. See **Table 1 in Section I (Background and Overview)** for a detail of these figures. For a global perspective, we did the same analysis for the largest stock market indices globally using 2019 data. See **Table 2 in Section I (Background and Overview)**, which follows.

**Goodwill as a Percentage of Equity
Major Stock Indices Across the Globe**



2019 FactSet Data for Goodwill Balances for Key Global Indices

(Currency in Millions)

Country & Index	Currency	Companies Per Index	Net Goodwill	Total Assets	Total Assets	Net Goodwill		Total Equity	Total Equity		Negative Equity Companies #	Negative Equity Companies %
						Net Goodwill	Total Assets		Less Net Goodwill	Total Equity		
<i>Australia</i>												
ASX All Ordinaries	Australian Dollar	500	183,424	6,304,481	2.91%	1,102,258	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	1.31%	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	659,370	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	35	672,313	9,433,637	7.13%	2,683,222	25.06%	2,010,909	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%		

The data make the message obvious. Goodwill balances are more than significant. Accordingly, any discussion of a change in goodwill accounting must contextualize the size of the debate being had by the FASB and the IASB of this issue. The debate cannot be had by technical accountants on the esoteric and theoretical accounting merits of this decision. The impact of any decision to change the accounting also must consider the impact it will have on the financial statements of corporations in the United States and globally and whether a change will enhance or deteriorate the decision-usefulness of financial statements.

A Survey of Investors and Analysts

CFA Institute provided comment letter responses to the FASB's 2019 Goodwill ITC and the IASB's 2020 Goodwill Discussion Paper (Goodwill DP) on their respective consultations on the subsequent accounting for goodwill. See **Section I (Background and Overview)**. In both letters, we lay out our investor perspectives on the subsequent accounting for goodwill. Our views were anchored in decades of outreach to our investor members. In November 2020, CFA Institute undertook a survey of its membership—members who are portfolio managers and analysts—to gain their perspectives. Our objective was to publicly provide investor perspectives on the issue of the accounting for the initial recognition and subsequent measurement of goodwill and the disclosures investors want in financial statements. Details on our survey method can be found at **Section III (About the Survey)**.

This paper is a summary of those investor and analyst views. These are not public policy views, but rather what analysts and investors said—in their own words—and what they want from financial reporting as it relates to goodwill. Although our survey includes specific questions with predefined response options, we always provide the opportunity for our investor members to provide open-ended responses. We got a lot of feedback on this survey and although these comments take time to review and collate, they add an incredible richness and context to responses. As such, we have included respondent comments extensively, in their own voice, in this paper.

Key Message on the Path Forward for Standard Setters: Improve Disclosures, Rather than Revert to Amortization

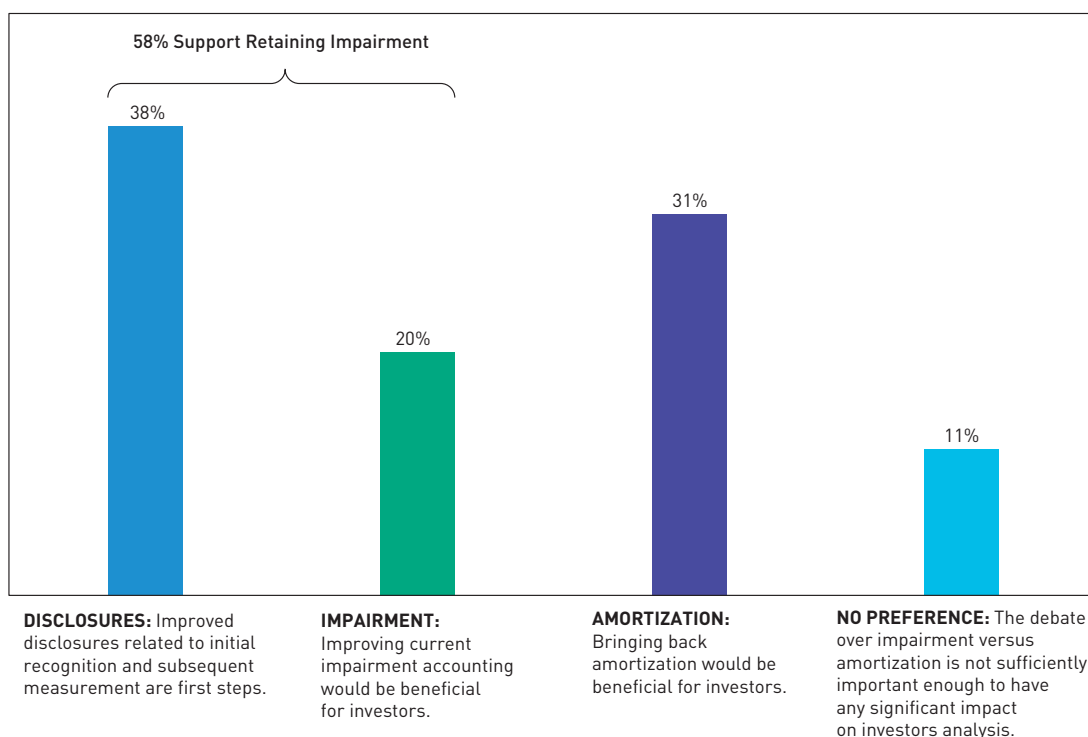
We included our key question on the best path forward in the body of the survey email. **Chart 1** from **Section II.A.1 (Desired Path Forward)** highlights that 58% of respondents support retaining impairment, with 38% saying that they want improved disclosures related to the initial recognition and subsequent measurement as first steps and 20% wanting improvement in impairment accounting. Only 31% thought bringing back amortization would be beneficial to investors.

Respondents also told us the current disclosures related to goodwill and its impairment are not useful, that they want improvement in disclosures before any changes in impairment accounting, and they want improvements in such disclosures regardless of a change in the accounting model. See **Section II.A.1 (Desired Path Forward)** and **Section II.D (Disclosures)** for charts in support of these findings.

Path Forward on Goodwill Impairment

Under the current accounting model, goodwill is not amortized but is tested annually for impairment, and more often if there are specified indicators of impairment.
Which statement best represents your overall perspective?

N = 1,607



Make Sure the Path Forward Is Globally Consistent

Respondents were in raging agreement that the IASB and FASB should follow the same approach in the accounting for goodwill (90%) and in the subsequent measurement of goodwill (94%). See **Section II.A.2 (IASB and FASB: Convergence of IFRS and US GAAP)**

Taken Together, Investors Support IASB Approach

Taken together, the message of retaining impairment and improving disclosures combined with their strong support for seeking a converged solution means investors are more supportive of the IASB approach. We intentionally did not ask the question of whose approach our investor members supported, as we wanted their views on the underlying issues and not their preference for US Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS).

Accounting for Goodwill: Investor Views on Initial Recognition and Subsequent Measurement

Initial Recognition

We began the survey by asking investors their views on what goodwill represents.

Goodwill Is An Asset, But It Can Represent Different Things Depending on Acquisition

We asked investors whether they believe goodwill is an asset. A majority (75%) agreed goodwill was an asset. Through their comments, we also learned, however, that investors believe goodwill can represent different things depending on the nature of acquisition and the industry in which the acquisition takes place. Investors want greater disclosure regarding these elements and characteristics of goodwill. A majority (73%) also told us they believe goodwill can be overvalued because of an overpayment for an acquisition and a failure to separate out all intangibles at acquisition.

Wasting or Non-wasting Asset?

When asked whether goodwill was a wasting (finite-lived) or non-wasting (indefinite-lived) asset, we learned a significant minority (45–50%) said goodwill is a wasting asset; however, more than half (53%) do not necessarily believe goodwill decreases in value over time. Investors believe (75%) goodwill can have wasting and non-wasting elements.

Eliminate Immediately Against Equity?

Most investors (71%) do not believe goodwill should be eliminated against equity at acquisition because they believe it is an asset. Through their comments, we learned investors do support, however, a disclosure of equity less goodwill to highlight the magnitude of the size of goodwill.

Thoughts on Intangibles

While surveying about goodwill, we received feedback on intangibles more broadly. Investors highlighted that the current accounting model needs to be updated to reflect the increasing importance of intangibles; that the move from a manufacturing to a service economy makes this more important and evident; and that they highlight the need for a resolution between the accounting for acquired versus internally generated intangibles. We have conducted a more thorough survey on intangibles and will issue a separate report.

See **Section II.B (Initial Recognition of Goodwill)** for additional details.

Subsequent Measurement: Impairment or Amortization?

Although accountants, preparers, and auditors are focused on the subsequent measurement of goodwill (i.e., amortization or impairment), investors are most focused on information regarding how the acquisition that created the goodwill asset has performed. As it relates to impairment versus amortization, we found the following:

Impairments: Not Timely, But Decision-Useful

Through the open-ended comments, we learned that investors do not believe there is sufficient transparency and rigor regarding the nature of impairment testing and the level at which it is performed. As it relates to the timeliness of impairment charges, we found that:

- investors (72%) recognize impairment charges are not taken in a timely manner;
- impairment charges would be more meaningful (89%) if taken in a more timely manner;
- the market recognizes impairments before company management (52%); and
- impairments taken in the first five years are more meaningful (64%) because such a charge reflects that an acquisition went badly, very quickly.

Given that investors have such views regarding the timeliness of impairment testing, and it is widely acknowledged that the impairment test is not sufficiently sensitive, it is unusual that the FASB is considering moving the level of the impairment test from a more detailed (reporting unit) level to a higher (segment) level. This move is inconsistent with improving the quality of impairment testing and making it more timely or more sensitive.

While acknowledging that impairment testing is not as timely as needed, investors also told us that impairment is decision-useful (74–77%) for the following reasons:

- even if not timely, impairment has information content that an acquisition has underperformed;
- impairments hold management accountable;
- impairment testing is more meaningful as it incorporates fair values; and
- eliminating impairment results in a loss of information to investors.

Overall, investors see impairment testing and charges as having a great deal of information content. Indeed, one attribute of impairment that is absent from amortization is the information necessary to hold management accountable for the success of acquisitions. When asked who should be responsible for impairment testing, investors (56%) said they believe management was principally responsible, followed by the auditors (22%) and then boards of directors.

When asked about the cost of impairment testing, 73% of investors said that it is a cost they are willing to bear.

See **Section II.C.1 (Impairment)** for additional details.

Amortization: Administratively Convenient, But Not Decision-Useful Information

When we asked about amortization, investors told us that amortization is an inferior model for the following reasons:

- it does not allow the discernment between good and bad managers and their acquisitive abilities (63%);
- it distorts financial metrics (61%); and
- it does not provide decision-useful information for investment analysis (50%).

Investor support for amortization stems from the fact that amortization is an administratively convenient cure (46%) for untimely impairment recognition (51%), but amortization does not improve matching of the cost of an acquisition with future revenues from the acquisition (38%). Through respondent comments, we found that support for amortization by some stems from a view that goodwill erodes over time, that impairment is subjective, and that amortization is more predictable. Others told us that amortization is not decision-useful, has no predictive value, is an accounting gimmick, distorts returns, gets added back and reduces the

decision-usefulness of financial reporting (US GAAP and IFRS), and is ignored by investors as it has no information content.

Amortization Method/Period

We also asked investors about their preferred amortization method or period. Three-quarters (75%) of respondents wanted a method other than a fixed amortization period—such as the 10-year period considered by FASB. This default method was least favored by investors. Only 22% favored such a fixed default method.

See **Section II.C.2 (Amortization)** for additional details.

Amortization Versus Impairment, Some Additional Insights

As it relates to the comparison of amortization and impairment, we made several other observations from additional survey questions and the comments we received as well as related to public comments about the benefits of one method over the other. Additional insight includes the following:

- ***Amortization Makes All Goodwill a Wasting Asset, Impairment Accommodates the Non-wasting Elements of Goodwill:*** Amortization makes all goodwill a wasting asset—this is inconsistent with what we found investors believe. In contrast, impairment allows for goodwill to be recognized for its wasting elements and for its non-wasting characteristics.
- ***Amortization Equates Bad and Good Managers, Reducing the Decision-Usefulness of Financial Statements:*** As we highlighted in our previous comment letters to the FASB and IASB—and as we queried related to impairment (but is worth reiterating)—amortization has the effect of making all managers look the same and reduces usefulness of financial statements.
- ***Amortization Must Come with Impairment Testing, But Likely Mutes Its Impact:*** Amortization must come with impairment testing. Our worry, however, is that amortization mutes the effect of impairment testing as management will simply kick the impairment can down the road, allowing time to cure the ills of the poor impairment testing.
- ***False Equivalency Made Between Add-Back of Impairment Charges and Amortization:*** A false equivalency is being made between the add-back of amortization and the add-back of impairment. Although the mechanics are the same, this should not be taken to mean that investors find both numbers being added back to have the same level of decision-usefulness. Amortization is an accounting device with no information content, whereas impairment tells investors that an acquisition has not performed as expected. The objective of the add-back exercise is to arrive at “normalized earnings” or some measure of EBITDA. This add-back is

done by analysts and investors because the statement of cash flows does not meet their needs. Adding back amortization and impairment to arrive at EBIDTA does not make them equivalent in their information content. Amortization will always be added back because it reduces the usefulness of the income statement. The same cannot be said of impairment. It is also important to note that impairment is not a “non-cash charge,” as some like to label it. It tells investors that the cash outlay in previous periods was not an effective deployment of capital. The same cannot be said about amortization.

- ***Level of Impairment Testing and “Shielding”:*** We asked investors whether they believe accounting for the subsequent measurement of goodwill should be different for an acquisition that is subsequently merged with another business unit or that is managed on a stand-alone basis: 37% said no, 32% said yes, and 31% neither agreed nor disagreed. This notion of shielding, as it has been labeled by accountants, did not change their views on how goodwill should be subsequently measured. What investors really seek is better disclosures regarding the nature of the unit being merged and consistency of this aggregation with the original acquisition plan. This issue of merging reporting units raises the overall question of the appropriateness of the level of the impairment testing. As we note elsewhere herein, the level of impairment testing is important to investors. They believe the level of testing is too high to be appropriately sensitive. Raising the level of the impairment test from the reporting unit to segment level, as the FASB is discussing, actually will increase the shielding effect and make the impairment test already noted as not sufficiently sensitive even more insensitive.
- ***Public Company Accounting Should Not Revert to Private Company Accounting:*** Investors told us that they did not agree that public company accounting for goodwill (i.e., impairment only) should be allowed to revert to private company accounting (i.e., amortization) for goodwill, even if the amortization accounting was coupled with impairment testing.
- ***Subsequent Measurement Should Not Be a Policy Choice:*** We asked investors whether the subsequent measurement of goodwill should be a policy choice, and 59% said no.

See **Section II.C.3 (Amortization or Impairment: Additional Thoughts)** for details.

Disclosures: Investor Views on Initial Recognition and Subsequent Measurement

Respondents also told us the current disclosures related to goodwill and its impairment are not useful (70%), that they want improvement in disclosures before any changes in impairment accounting (66%), and that they want improvements in such disclosures regardless of a change in the accounting model (88%). We asked them what disclosures improvements they needed.

Impairment Disclosures

Overall, investors noted a need for more information to make an independent assessment of an acquisition's success. In particular, they identified the need for the following improvements related to impairment, in order of priority:

- Valuation models and related estimates and assumptions are key;
- Quantitative information on how and acquisition performs over time relative to original business objectives;
- Key common performance metrics that management uses to monitor the acquisition;
- Qualitative information on how the deal performed (but quantitative information was noted as more important); and
- More information on how the board assessed the acquisition's performance over time.

Amortization Disclosures

As noted under amortization, we asked investors their preferred amortization method or period. Three-quarters (75%) wanted a method other than a fixed amortization period—such as the 10-year period considered by FASB, which was the least favored method. This method as a standard-setter default does not require substantial disclosure, but the other methods investors favored involve judgment and estimates. Investors were near unanimous (95%) in their request for disclosures of such useful lives, and how they were determined, along with whether the useful life chosen has any impact on the amount of goodwill recognized.

Takeaways

Returning to amortization does not change investors' need to evaluate the performance of the acquisition. Investors believe disclosures related to impairment need to improve regardless of a change to amortization or retention of the impairment-only model. Regression to amortization only increases disclosure—as there will now be a need for impairment and amortization-related disclosures. The net result is that amortization increases the cost of compliance not only in the accounting but also in the provision of disclosures. Investors want disclosures to evaluate the acquisition regardless of the choice of standard setters to amortize goodwill. The 2019 FASB Goodwill ITC did not explore the addition of disclosures and may indicate that FASB either supports or fails to recognize the opacity that a return to amortization will bring to investors.

See Section II.D (Disclosures) for more information.

Agenda-Setting Criteria and Improvement in Financial Reporting

Historical Perspective

As we note in **Section I (Background and Overview)**, in the early 2000s, the FASB and IASB converged their accounting for business combinations and retained the recognition of goodwill, eliminating amortization and introducing impairment testing as the measurement method for subsequent goodwill. A post-implementation review was completed in 2013 and did not find significant changes were needed in the accounting for goodwill.

Impetus to Revisit

Beginning in 2018, the media attention around high-profile failures, such as Carillion in the United Kingdom, which had significant goodwill, forced the IASB to take-up the consideration of goodwill accounting—despite the fact that goodwill does not make a business fail. This was followed by some large write-downs of goodwill in the United States at GE and Kraft Heinz—the former being perceived as untimely and the latter being very timely. The US write-downs did not evidence a failure in the goodwill accounting model, but they did present an opportunity to bring to public companies the subsequent accounting (i.e., amortization) for goodwill allowed as a practical expedient for private companies in 2014. This essentially resulted in the backdoor standard-setting we had expressed concern about with the advent of the FASB’s Private Company Council in 2012, which was reemphasized by CFA Institute in 2015.

FASB and IASB Actions and 2019 and 2020 Comment Letters

Although goodwill accounting was first brought up in the United Kingdom for IFRS, the FASB was the first to publish a consultation document to revisit the subsequent measurement of goodwill. CFA responded to the FASB’s Goodwill ITC in early 2020 and on the IASB’s Goodwill DP in early 2021. Our views are expressed in detail in those lengthy comment letters in **Appendices 1** and **2** of this document.

Have Agenda-Setting Criteria and Improvement in Financial Reporting Threshold Been Met? Investors Are Willing to Pay for a Proper Cost-Benefit Analysis, But Don’t See Amortization Meets the Threshold of Improvement in Financial Reporting

The premise of the 2019 FASB Goodwill ITC was that costs of impairment testing exceeded their benefits. This was the stated assumption in the Goodwill ITC. The “too little, too late” nature of impairment testing was not noted as a premise for consideration in the Goodwill ITC. No study has been conducted, however, that accumulates the costs of impairment testing—so a proper cost-benefit analysis has not been completed, as required for FASB agenda setting. We explore this topic

in **Section II.A.3 (Cost Versus Benefit)** in which we highlight the findings that investors (73%) are willing to pay for the cost of impairment testing and that they believe (61%) before moving forward, standard setters should be making a cost-benefit analysis. The enormous size of goodwill balances globally (as shown in the previous table 2019 FactSet Data for Goodwill Balances for Key Global Indices) supports their belief that a cost-benefit analysis is worth such effort.

To be added to the FASB's agenda, a topic must demonstrate that current financial reporting does not represent a complete reflection of the underlying economics. As our survey notes, investors believe impairment provides economically relevant information, even if not done timely, but especially when it is done timely. Investors also told us that amortization does not provide economically relevant information, it is just an administrative convenience. Even if the FASB were to believe impairment not being done timely met the criteria for agenda setting (i.e., current financial reporting does not represent a complete reflection of the underlying economics), their solution (i.e., amortization) does not meet the criteria for a change in financial reporting. As our respondents highlight, amortization is not an improvement in financial reporting because it does not provide a better reflection of the economics nor does it allow users to make a better capital allocation decision. This is the benefit against which the costs—not accumulated—should be measured.

Disclosures, in contrast, can result in the improvement of the timeliness of impairment recognition—the real financial reporting problem. Disclosures are a solution that can improve financial reporting and justify a change in financial reporting.

Additionally, the FASB's calculus fails to recognize, as we describe previously, that adding amortization may increase cost as impairment testing is still supposed to be performed. Again, the FASB makes no attempt at analyzing the costs or benefits of such a change. Moreover, the FASB ITC seeks no data from stakeholders to make an informed assessment.

Amortization is Not the Highest and Best Use of Standard-Setter Resources

The size of goodwill balances warrants attention to the valuation of goodwill and making the financial statements more decision-useful, not less. Investors want to know how acquisitions performed by being provided with disclosures that facilitate such analysis. As one of our members highlights in the body of this paper, standard-setter resources being deployed against the reconsideration of the amortization of goodwill are not the highest and best use of their time and treasure. Investors, as our survey shows, believe resources are better deployed against seeking improvements in disclosures regarding impairment testing and consideration of important topics, such as intangibles more broadly. How will FASB address these needs? In some conversations, the FASB has suggested that the addition of disclosures would be providing forward-looking information in financial statements. That does not make sense to investors because providing better disclosures simply supports the forward-looking measure already included in the financial statements.

I. Background and Overview

History of Goodwill Accounting

Before we begin with the discussion on goodwill, it is best to provide a high-level summary of the accounting. For decades, the pendulum has swung back and forth. The earliest US accounting standard provided for permanent retention of goodwill (1944). Nearly 30 years later, the US standard setter adopted an amortization regime over a maximum of 40 years. Approximately 30 years later, amortization was discarded in favor of permanent retention of goodwill with reduction for impairment. This approach gave investors new insight into the overall purchase price, allocation of goodwill, and subsequent performance. If the fair value of the business combination's net assets exceeded the goodwill, then an impairment charge would be recognized that potentially indicated either overpayment for the business combination or a change in circumstances in which the acquisitions value had diminished.

In the early 2000s, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) converged their standards on accounting for business combinations and goodwill. The current model states that in a business combination, an acquirer recognizes goodwill as an asset equal to the excess of the purchase price over the fair value of all net assets acquired in a business combination, including identifiable assets. Goodwill is allocated to either a reporting unit, such as US Generally Accepted Accounting Principles (US GAAP), or to a cash-generating unit, such as International Financial Reporting Standards (IFRS).

Under both regimes, goodwill is not amortized but rather is tested for impairment annually or more frequently if there are indications of impairment. The theory is that goodwill has an indefinite life (not all goodwill declines in value), and for goodwill that does decline in value, it does not decline systematically over time.

The impairment test has been simplified over the years—especially by the FASB. The impairment test generally involves a comparison of the carrying value of a unit to its fair value (US GAAP) or to its recoverable amount (IFRS).

Before the change in accounting in the early 2000s, goodwill had been amortized over a maximum period of 20 years (IFRS) or 40 years (US GAAP). The theory was that goodwill is not an indefinite-lived asset and should be reduced to zero over some period of time.

In 2014, the FASB permitted private companies to elect to amortize goodwill on a straight-line basis over 10 years (or less, if appropriate).

The Impetus to Revisiting Post-Acquisition Accounting for Goodwill

Beginning in 2018, media attention given to the issue of goodwill in the United Kingdom increased political pressure on the IASB to reconsider the issue of goodwill amortization, rather than impairment, under IFRS. Simultaneously, a significant write-off of goodwill by GE¹ in October 2018 followed by the Kraft Heinz² goodwill write-down created an opportunity for certain stakeholders to request the FASB address the accounting for goodwill for US GAAP. In the United States, the existence of amortization of goodwill for private companies was a force multiplier in this debate. When goodwill amortization for private companies was introduced in the United States in 2014, we expressed concern that private company accounting was being used as backdoor accounting for public companies. These concerns appear valid as it relates to goodwill accounting.

Write-downs of goodwill at several high-profile companies, or in connection with high-profile corporate failures, should not be seen as widespread evidence of the need to replace impairment with amortization of goodwill. Amortization of goodwill, and certainly amortization without impairment, would not have cured what ails these acquisitions, especially given that some failed rather quickly. Rather, one could argue that 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.

The FASB and IASB's Proposed Changes: CFA Institute Comment Letters

FASB US GAAP Proposed Changes

Although the issue was first raised in the United Kingdom following the collapse of Carillion, the FASB beat the IASB to market with an Invitation to Comment, *Identifiable Intangible Assets and*

¹Ed Crooks, "GE's \$23bn Write-down Is a Case of Goodwill Gone Bad," *Financial Times*, <https://www.ft.com/content/9beb58f4-c756-11e8-ba8f-ee390057b8c9>.

²Antoine Gara, "Kraft Heinz Plunges After \$15 Billion Write-down, Dividend Cut and SEC Probe," *Forbes*, 21 February 2021, <https://www.forbes.com/sites/antoinegara/2019/02/21/kraft-heinz-plunges-after-15-billion-writedown-dividend-cut-and-sec-probe/?sh=e0bb0615b0ff>;

Tatyana Shumsky, "Kraft Heinz Goodwill Charge Tops Consumer Staples Record," *Wall Street Journal*, 22 February 2021, <https://www.wsj.com/articles/kraft-heinzs-goodwill-charge-tops-consumer-staples-record-11550874959>.

Subsequent Accounting for Goodwill (the “2019 FASB Goodwill ITC”). In this proposal, the FASB considers reverting to the historical accounting for the subsequent measurement, whereby goodwill would be amortized, likely over a period over 10 years.

CFA Institute issued a comment letter the (“2019 FASB Goodwill ITC Comment Letter”) in January 2020 providing our views on the Goodwill ITC. A copy of that comment letter is attached at **Appendix 1**.

IASB IFRS Proposed Changes

In 2020, the IASB issued the Discussion Paper on *Business Combinations—Disclosures, Goodwill and Impairment* (the “2020 IASB Goodwill DP”).

CFA Institute issued a comment letter (“2020 IASB Goodwill DP Comment Letter”) in January 2021 providing our views on the Goodwill DP. A copy of that comment letter is attached at **Appendix 2**.

CFA Institute Message

CFA Institute has stated in its correspondence to the IASB and FASB that they 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. As CFA Institute has stated, we do not believe that amortization is the best response to this problem.

Our extensive responses included in **Appendices 1 and 2** provide our detailed views.

CFA Institute Goodwill Survey

In late 2020, we undertook a survey in which we asked 23,800 portfolio managers and analyst members their views on goodwill. All surveyed were provided with the first question: how they believe the standard setters should move forward. We then branched those 1,600 respondents into two blocks (approximately 800 in each) and provided each with a series of subsequent questions to ensure that the survey was relevant and of appropriate length. See **Section III (About the Survey)** for a detailed description of this survey.

The data provided herein are provided at a global level. If we identified materially different results by region to a respective question, the regional differences are noted next to the global results. Although we can break down results in great detail, we analyze differences according to

the following regions: Americas; Europe, Middle East, and Africa (EMEA); and Asia Pacific (APAC).

Future Work on Intangibles: CFA Institute Intangibles Survey

Goodwill is a significant issue to investors as is the related topic of intangibles. Our survey was crafted to address both topics. Given the length of our goodwill and intangibles survey, however, we bifurcated the survey into a goodwill survey and a separate intangibles survey. The latter survey was completed in June 2021 and will be the subject of a separate paper to be released in 2022. That said, the goodwill survey results included herein included numerous valuable comments related to intangibles more broadly. We included those comments at the end of **Section II.B (Initial Recognition of Goodwill)**.

Contextualizing the Size of the Goodwill Debate: Implementing Amortization Would Have a Dramatic Impact

Our Message to the FASB: US Goodwill Balances Are Significant, Stakeholders Need to Understand Impact

In our 2019 FASB Goodwill ITC Comment Letter, it was essential to contextualize the size of the goodwill debate and to explain what a write-off would mean to US public companies. We do not believe the FASB has properly contextualized the impact of their decision for stakeholders. At that time, using data from Calcbench, we aggregated goodwill balances on the books of all US public companies and the S&P 500.

In 2018, goodwill amounted to 6% of all public company assets and 8% of the assets of public companies with goodwill. Goodwill represented 32% and 40%, respectively, of the equity of such public companies. More staggering is the effect eliminating goodwill through amortization would have on S&P 500 companies. With \$3.3 trillion in goodwill, the S&P 500 represents nearly 60% of the goodwill of all US public companies, although S&P 500 companies represent only 8% of the number of US public companies and 37% of the assets of US public companies. Goodwill represents 10% of the assets and 45% of the equity of S&P 500 companies with goodwill.

If the FASB moved toward amortization, over 10 years, this approach would schedule the write-off (amortization) of a substantial portion of the assets and equity of US public companies and reduce the profits of the S&P 500 (\$5.6 trillion or 32% of the equity of US public companies and \$3.3 trillion or 41% of the equity of the S&P 500). This would reduce profit by \$330 billion (\$560 billion for all US public companies) for 10 years based on 2018 data. See the extract from **Table 1**.

Table 1. 2018 Calcbench Goodwill Data for All US Public Companies and S&P 500 Companies

Goodwill All Public Companies & S&P 500 Companies 2018 (\$'s in Trillions)													
All Public Companies						S&P 500							
# Companies	Goodwill	Equity	Assets	G/W		# Companies	Goodwill	Equity	Assets	G/W			
				Equity	Assets					Equity	Assets		
2018	6,449	\$ 5,558	\$ 17,580	\$ 95,446	31.62%	5.82%	2018	499	\$ 3,251	\$ 7,968	\$ 35,037	40.81%	9.28%
All Public Companies with Goodwill						S&P 500 Companies with Goodwill							
# Companies	Goodwill	Equity	Assets	G/W		# Companies	Goodwill	Equity	Assets	G/W			
				Equity	Assets					Equity	Assets		
2018	3,196	\$ 5,558	\$ 13,734	\$ 72,620	40.47%	7.65%	2018	444	\$ 3,251	\$ 7,217	\$ 33,037	45.05%	9.84%

Source: Calcbench

In our 2019 FASB Goodwill ITC Comment Letter, we also considered quick heuristics regarding the impact of amortizing goodwill for the S&P 500:

- **Goodwill Balances Greater Than 10 Year's Profit:** The companies with 2018 goodwill balances greater than 10 years (the likely FASB amortization period) of the company's 2018 annual profits. Sixty-nine companies had goodwill in excess of 10 years of profits, 22 of which were companies with net losses and no current year profits to rebuild the goodwill write-off. See Appendix A to the 2019 FASB Goodwill ITC Comment Letter.
- **Goodwill in Excess of Equity:** The number of companies that had goodwill in excess of equity. There were 112 such companies or greater than 20% of the S&P 500 that had goodwill balances greater than equity. Said differently, more than 20% of the largest US corporations will have negative equity if goodwill is written off. See Appendix B to the 2019 FASB Goodwill ITC Comment Letter.

- ***Number of Year's Profits to Recoup Goodwill in Excess of Equity:*** The number of years of profits it would take to return to a positive equity balance upon write-off of the goodwill balances. For 10 companies, it seemed unlikely they could earnout the amortization of goodwill. See Appendix C to the 2019 FASB Goodwill ITC Comment Letter.

Substantively, our work was meant to show not only the magnitude of goodwill balances but also their impact on the equity and earnings of the largest US corporations.

Our takeaway is—and the message for standard setters and regulators should be—that the reconsideration of goodwill accounting post-acquisition should not be construed as an accounting theory exercise. Considering the impact on key financial metrics and the perceived economics of the largest US corporations is essential. Stakeholders should be focused on the effects of such a change, not on the technical accounting discussion. In our estimation, it is worth an extensive cost-benefits analysis—and an effects analysis—before the FASB decides to make an accounting change that would make 40% of the equity of the largest US corporations disappear either immediately or over 10 years.

Goodwill Balances in Major Global Markets

The Data

It is worthwhile to contextualize the goodwill balances not only in the United States but in various jurisdictions around the globe. We attempted to utilize data for 2020 to be most current—especially because of COVID-19—but in many jurisdictions, data were not available as of the date we extracted the information from FactSet (early April 2021). For those jurisdictions for which significant data were available, we were surprised to note that goodwill balances were not substantially lower, or lower as a percentage of assets and equity, despite the impact COVID-19 should have had on goodwill balances and their potential for impairment. To ensure that we had a more complete comparison, we utilized data as of 2019 for 16 indices around the globe.

The country, index, currency, net goodwill, total assets, and total equity balances extracted from FactSet are presented in **Table 2**. Utilizing that data, we computed goodwill as a proportion of total assets and total equity and the amount of equity after deducting goodwill. Consistent with our approach in the 2019 FASB Goodwill ITC Comment Letter, we also noted the number of companies that had negative equity after deduction of goodwill and the percentage of the companies in the index that they represented. Those computations also are presented in **Table 2**.

Table 2. 2019 FactSet Data for Goodwill Balances for Key Global Indices

(Currency in Millions)

Country & Index	Currency	Companies Per Index	Net Goodwill		Total Assets	Total Equity	Net Goodwill		Total Equity	Total Equity Less Net Goodwill	Negative Equity Companies	
			Goodwill	Net Goodwill			Total Assets	Total Equity			Total Equity	#
<i>Australia</i>												
ASX All Ordinaries	Australian Dollar	500	183,424	6,304,481	2.91%	1,102,258	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	1.31%	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	659,370	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	35	672,313	9,433,637	7.13%	2,683,222	25.06%	2,010,909	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%		

Insights from the Data: What Did We Learn? Amortizing Goodwill Will Have a Dramatic Impact on Equity

Goodwill as a Percentage of Assets and Equity

From the data, we learned that goodwill as a percentage of assets and equity stacked up as follows:

- ***United States and Europe:*** The US may have slightly higher goodwill as a percentage of assets compared with companies in Europe, but European companies (i.e., other than the Netherlands) have goodwill as a percentage of equity balances that are as significant as in the United States.
- ***United Kingdom and Canada:*** We noted significant goodwill balances as a percentage of assets and equity in the United Kingdom and Canada, albeit lower than in the United States and Europe.
- ***Mexico and Brazil:*** Mexico had similar goodwill balances as a percentage of equity as the United Kingdom and Canada, but a much higher goodwill as a percentage of total assets than those jurisdictions. Brazil, in contrast, was lower on both measures—goodwill as a percentage of assets and equity.
- ***Australia:*** Australia trailed the United States and Europe on these metrics, but most notably on measures of the significance of goodwill to assets and equity.
- ***Asia and India:*** Goodwill as a percentage of assets and equity were markedly lower in Asia and India—with percentages of assets of 0.22% to 1.31% and percentages of equity of 1.75% to 9.39%—than those in North America, Europe, the United Kingdom, and Australia.

Companies with Negative Equity, After Deducting Goodwill

As we did for the 2019 FASB Goodwill ITC Comment Letter, we also looked at the companies within each index with negative equity after deduction of goodwill. Using the same 2019 data in **Table 2**, we looked at the number of companies and the percentage of these companies that were representative of the respective index to make comparisons across jurisdictions.

The number of US S&P 500 companies with negative equity was higher than in 2018. The equity of the largest US corporations was most significantly affected by the write-off of goodwill to equity. The number of companies in the Russell 2000 was more comparable to European, Australian, and Latin American indices.

Key Takeaways

Overall, we can take away the following from this analysis:

- ***Goodwill Is Massive and Massively Important:*** Goodwill is a big deal around the globe, except in Asia and India.
- ***This Is Not Just an Accounting Theory Question:*** The FASB and IASB must consider the financial statement effects and economic consequences of a decision to amortize away goodwill balances. Their decision must be contextualized with real data, not just accounting theory. A move to amortize will have dramatic financial statement and analytical impacts because of the size of goodwill relative to total asset and equity.
- ***Convergence Is Essential:*** A difference in approach (i.e., amortization for US GAAP) for US companies and for companies globally (i.e., impairment for IFRS companies) would have dramatic results on the comparability of companies around the globe because of the size of goodwill balances.
- ***The Size of Goodwill Warrants the Cost of Impairment Testing and Further Disclosures:*** The cost of goodwill impairment testing would have to be very high to not be justified given the relative size of the goodwill balances. At numbers nearing 30–40% of equity in developed markets, preparers and standard setters need to justify why the cost of impairment testing and further disclosures is not justified.

Investor Comments on the Size of Goodwill

We did not ask our investor members for their views on the size of goodwill balances and the impacts on their analysis, but some provided comments that got to the heart of the issue: goodwill has become a significant asset on the balance sheet of companies globally. Comments are included in **Box 1**.

Box 1. Investor Comments on the Size of Goodwill

- *Goodwill will become an increasing share of leading company market value...it makes sense to increase disclosure in this area.*
- *This has developed into a large and serious issue particularly as a result of private equity's buy and build strategy. It deserves all the attention we can give it. What does it mean when 75% of a balance sheet is goodwill and intangibles?*
- *Analysts adjust away amortization. Companies with a high % of assets comprised of goodwill should be scrutinized by investors in a different way than a company with 100% of its assets as PP&E. We don't need new accounting rules to tell us this.*

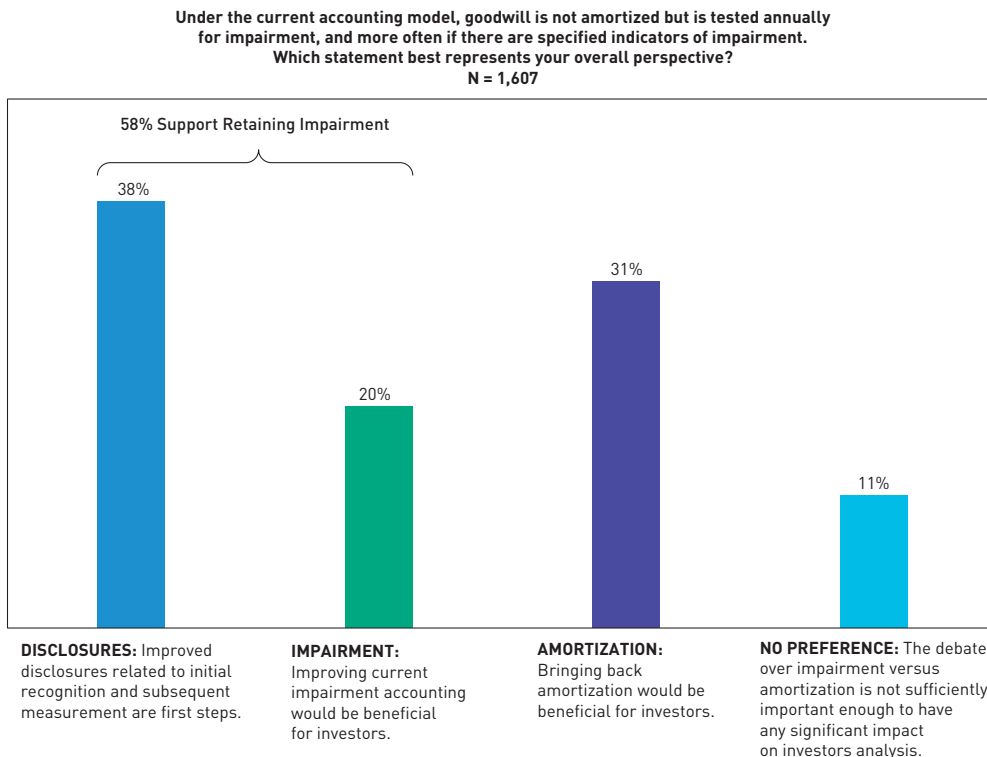
II. Survey Results

A. Investor Preferences for Standard Setters

1. Desired Path Forward

In the email introducing the survey, we included the central question for policymakers, standard setters, and investors: What do investors believe is the best way forward as it relates to the subsequent accounting for goodwill: improving impairment testing, bringing back amortization, or improving disclosures? A majority of respondents (58%) wanted to stay with impairment over moving to amortization, with 38% seeking to start by improving disclosures and 20% indicating improvement in impairment testing is the best way forward. See **Chart 1**.

Chart 1. Path Forward on Goodwill Impairment



As we note in the sections that follow—**Sections II.C.1 (Impairment)** and **II.C.2 (Amortization)**—investors do not see the principal issue with impairment being the nature or characteristics of the impairment test, but rather the moral hazard management faces when recognizing such an impairment, because it signals acquisitions have not been successful.

Only 31% of investors supported bringing back amortization. Response to subsequent questions on this issue indicate this support for amortization is based on the fact that management does not recognize impairments in a timely manner and that amortization is an administratively convenient cure for this issue as it reduces balances and mutes the moral hazard of impairment testing by simply eliminating the balance over time. Respondents broadly acknowledged that amortization results in the loss of decision-useful information for investors—especially if the amortization period is a default, uniform, fixed amortization period with no relationship to the cash flows associated with the acquired business.

Investor Comments on the Path Forward

As we reviewed investor member comments to the survey, some of the comments got to the heart of whether change was needed in the subsequent accounting for goodwill and, if so, what that change should be. A sample of these comments are included in **Box 2**.

Box 2. Investor Comments on the Path Forward

- *Ultimately, investors will add back goodwill amortization to determine cash earnings, so this debate is form over substance. **Easier for everyone to simply not have to take another adjustment into account and leave goodwill accounting as it is today.** [Amortization.]*
- *The amortization is non-cash charge and we are going to add back in valuing companies on an Enterprise Value/EBITDA basis anyway. **Therefore, the work to bring back amortization expense isn't worth it. Leave as is and focus on more important issues... Don't waste time with bringing back goodwill amortization expense.***
- *I am all in favor of more disclosure, but no more rule changes! Accountants have got to stop moving the goal posts if their reports are to have any value. They should stop pretending to be analysts and/or economists. That's **our** job. There is no such thing as an economically "perfect" set of financial statements, but what we need from accountants are objective benchmarks – that are consistent across time – for investors as well as managers to evaluate. **If this constant tinkering does not stop, GAAP will lose what little apparent value it has left, and companies will be free to create whatever bogus statistics they like and continue to mislead investors at will.** [Disclosures]*
- *Goodwill is more of an accounting gimmick than valuable information to investors. **While its existence on the asset side of the balance sheet is unfortunate, amortisation, if re-introduced, will make things even worse.** Indeed, it does seem that the best approach in goodwill accounting would be to have an equity contra-account. [Amortization.]*

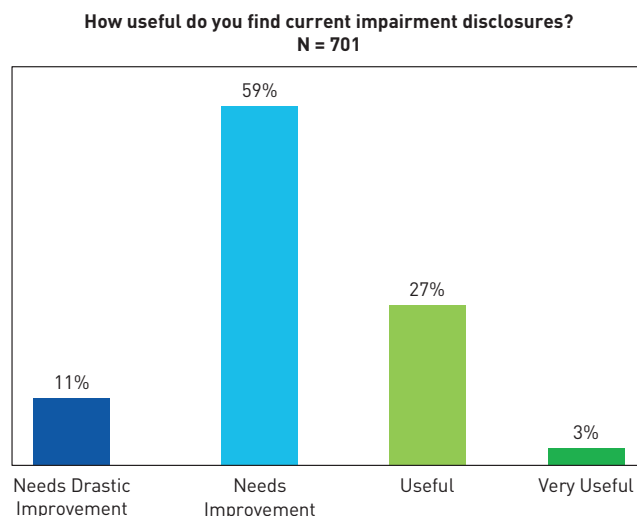
Improving Disclosures

As we anticipated investors would tilt toward improving disclosures related to impairment over abandoning impairment for amortization, we asked a series of questions to gain investor perspectives on existing and potential disclosures. Questions related to disclosures are included in their entirety in **Section II.D (Disclosures)**. Several key questions related to the usefulness of current disclosures and the need to improve disclosures before making changes to the accounting for goodwill are also included herein for context.

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 2**.

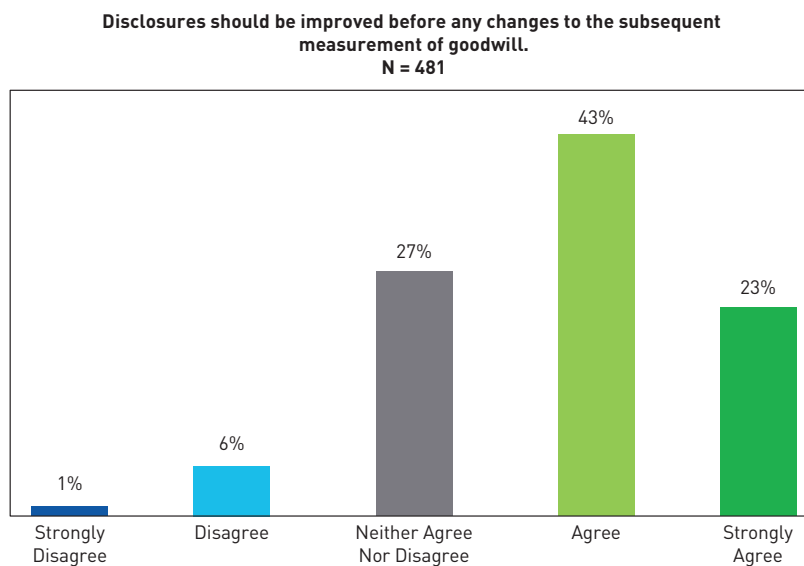
Chart 2. Usefulness of Current Impairment Disclosures



Improve Disclosures before any Changes in Impairment Accounting

When asked if improvement in disclosures should proceed a change from impairment to amortization (subsequent measurement) of goodwill, a majority (66%) agreed that improvements in disclosure should proceed a change to amortization, with only 7% disagreeing with that approach. See **Chart 3**.

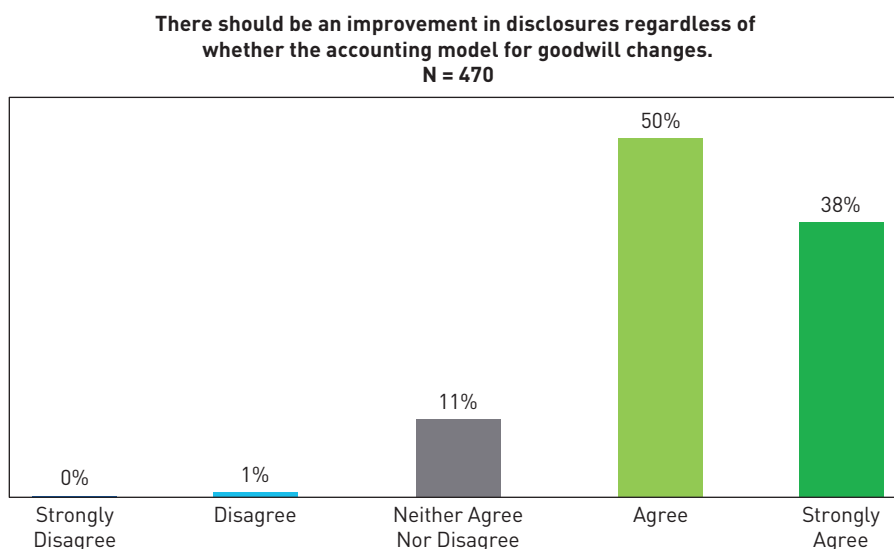
Chart 3. Improve Impairment Disclosures Before Changes in Subsequent Measurement of Goodwill



Disclosure Improvements Needed Regardless of Change in Accounting Model

We asked investors whether improvement in disclosures was needed regardless of whether the accounting model changed. An overwhelming majority (88%) agreed that improvement in disclosures was necessary. See **Chart 4**.

Chart 4. Improve Impairment Disclosures Regardless of Changes in Accounting for Goodwill

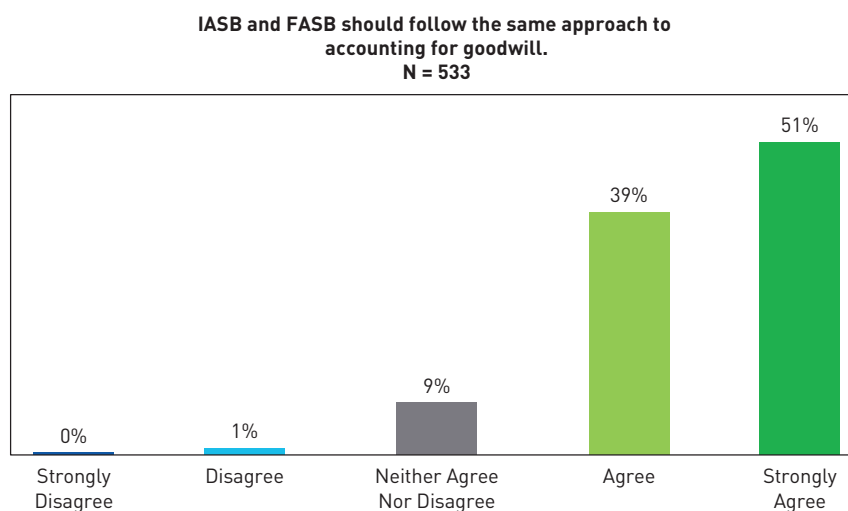


Overall, we found that investors were most supportive of the IASB’s approach of improving disclosures rather than the FASB’s approach of moving to amortization.

2. IASB and FASB: Convergence of IFRS and US GAAP

We asked investors whether they thought the IASB (IFRS) and FASB (US GAAP) should be converged on their accounting for goodwill. As shown in **Chart 5**, 90% of respondents agreed with the idea of convergence on the accounting for goodwill.

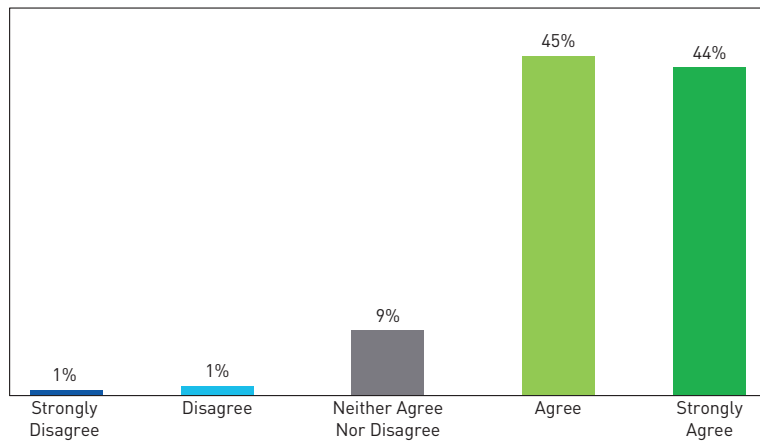
Chart 5. Convergence of IFRS and US GAAP on Accounting for Goodwill



We specifically asked about the subsequent measurement of goodwill (impairment or amortization) and whether the IASB and FASB should follow the same approach. As shown in **Chart 6**, 89% of respondents agreed that the IASB and FASB should follow the same approach to the subsequent measurement of goodwill.

Chart 6. Convergence of IFRS and US GAAP on Subsequent Measurement of Goodwill

The IASB and FASB should follow the same approach (i.e. impairment or amortization) in the subsequent measurement of goodwill.
N = 700



Investor Comments on Convergence

Overall, investors were in raging agreement that the FASB and IASB should be following the same approach. Investors agreed as it relates to taking different approaches under IFRS and US GAAP. A sample of comments are given in **Box 3**.

Box 3. Investor Comments on Convergence

- *A common approach between accounting standard setters is important to aid comparability of corporate performance across geographies.*
- *This [different accounting approaches] could get messy.*
- *The level of complexity with different approaches is challenging.*
- *Don't allow a mixing of methods as it will actually make financial statements more difficult to read.*

International Regulators Weigh-In Calling for Convergence

In late February 2021, the International Organization of Securities Commissions (IOSCO) issued a statement, *IOSCO Statement on Enhancing Collaboration between the IASB and the FASB on Accounting for Goodwill*, calling for the IASB and FASB to work together on their individual projects related to the accounting for goodwill.

3. Cost Versus Benefit

Standard Setters Assume Impairment Testing Is More Costly Than Benefit: Cost Versus Benefit Analysis Is Needed to Validate Assumption

Premise of the 2019 FASB Goodwill ITC = Costs > Benefits

In our 2019 FASB Goodwill ITC Comment Letter, we noted the FASB asserts—without evidence or logical support—in the Goodwill ITC that the cost of performing the goodwill impairment test exceeds the benefit and that a change is needed. On page 8 of the Goodwill ITC, the FASB inserts the following paradoxical statement that it says is the premise underlying their consultation:

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.

Challenging the Premise, Call for Analysis of Impairment Testing Costs

We disagreed with the assumption underlying the consultation, as neither the FASB, nor IASB, has completed an empirical analysis of the cost of performing impairment tests. An analysis of this nature should be relatively straightforward as the costs are discrete and measurable. The costs include the following: (a) internal human capital and data collection costs; (b) costs associated with company-retained external valuation expertise; and (c) external audit staff as well as audit valuation expertise time. All such costs can be gathered directly or estimated with a sufficiently reliable and relevant degree of precision.

FASB Agenda and Accounting Change Criteria

The FASB website sets forth their requirement to perform a cost-benefit analysis when making an accounting change and how this differs from an analysis of economic consequences. The FASB notes that projects are *only added to the FASB's agenda when current financial reporting information is not portraying an objective and complete reflection of the underlying economics*. In the Goodwill ITC, the FASB did not demonstrate how impairment does not reflect the underlying economics. The emphasis—and assumption of the Goodwill ITC—was on the cost of impairment testing, not on the failure to reflect the economic consequences of the acquisition transaction.³

³At a July 2021 joint IASB and FASB Educational Session, the FASB noted that they undertook the goodwill amortization project because of the “lack of sensitivity of the goodwill impairment test”—noting the “too little, too late” recognition of the impairment test. At the same Educational Session, the FASB also noted they undertook the project because of the “post-implementation review.” These appear to represent new reasons for undertaking the goodwill project that are different from the cost assumption set forth in the 2019 Goodwill ITC. We would note two items related to this reasoning. First, if the lack of sensitivity, or “too little, too late” nature of impairment testing, is the basis for adding the goodwill project to the agenda, it seems inconsistent that the FASB is simultaneously considering

The FASB also notes: “*the role of financial reporting is to promote decisions that are well-informed and to provide investors information they need to make those decisions. The FASB’s objective in developing accounting standards is to show a complete and unbiased picture of a company’s financial position and performance. Better information (which could be favorable or unfavorable for a particular organization) is expected to change capital allocation decisions.*” Our survey asks investors whether amortization or impairment is more decision-useful. In the survey results that follow, it is evident that our investor members do not believe amortization provides better information to make capital allocation decisions.

Finally, according to the FASB’s cost-benefit analysis guidance, the FASB is to “*issue standards only when the expected improvement in the quality of the information provided to users—the benefit—justifies the cost of preparing and providing that information.*” The challenge the FASB faces is that our investor members do not believe amortization (the proposed improvement) provides better information. Furthermore, standard setters have not quantified the cost of impairment testing, nor have they considered the incremental cost of moving to amortization or the fact that investors’ central issue with impairment testing is a desire for improved disclosures such that they can make independent assessments of acquisition performance.

Overall, we do not believe the FASB has met its own criteria for putting a goodwill amortization project on the agenda or for making a change based on either (a) a cost versus benefit analysis or (b) an improvement in information for capital allocation resulting from amortization.

Investor Perspectives on the Cost of Goodwill Impairment Testing

We directly posed questions to our investor members (those who ultimately pay for the cost of impairment testing) about their perception of the cost-benefit of impairment testing and whether standard setters should be performing a formal cost-benefit analysis before any rule-making.

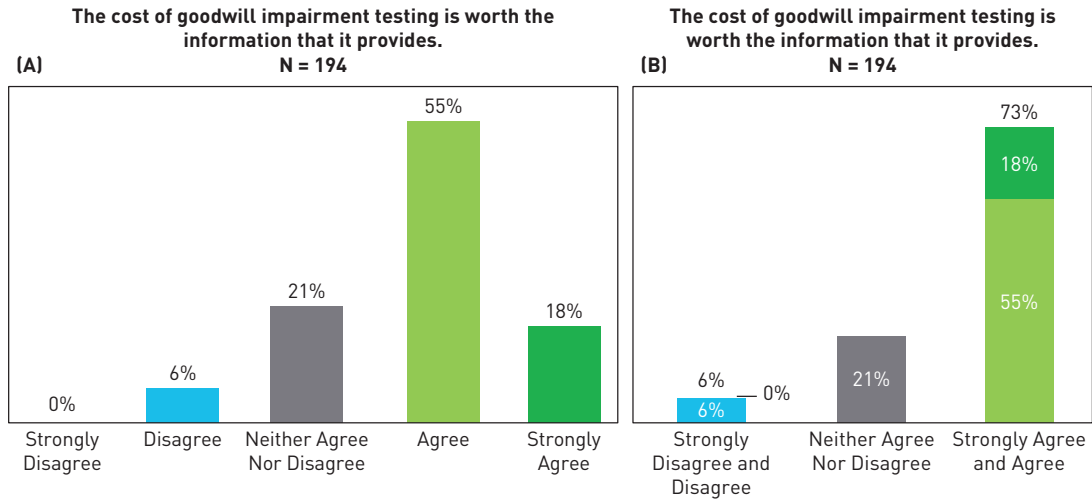
raising the level of the impairment testing from the reporting unit to the segment level, which would make the test less sensitive. Second, the referenced post-implementation review—although not specifically identified—is likely the 2013 Post-Implementation Review Report on FASB Statement No. 141 (revised 2007) as per the Financial Accounting Foundation website. Upon review of the 2019 Goodwill ITC, the post-implementation review was mentioned only in the context of cost. Furthermore, the review was completed in 2013, six years earlier, and does not mention goodwill impairment testing as an issue of key concern.

If delayed impairment testing was the basis for adding the goodwill amortization project to the agenda, one would have to assume the FASB believes that the replacement financial reporting information (i.e., amortization) would be an improvement in reflecting the underlying economics over the existing impairment testing. This is inconsistent with our survey findings of analysts and portfolio managers.

A Cost Investors are Willing to Bear

When asked if the cost of impairment testing was worth the information it provides, 73% of investors agreed, with only 6% disagreeing and 21% neither agreeing nor disagreeing. See **Charts 7A** and **7B**.

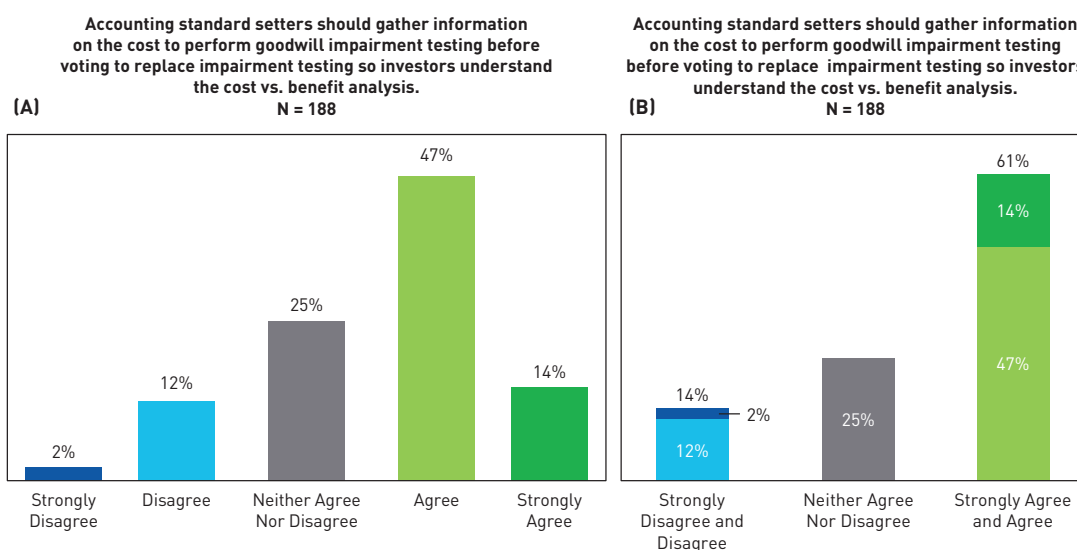
Chart 7. Cost of Goodwill Impairment Testing Versus Information Content



Standard Setters Must Understand the Cost of Impairment Testing

When asked if the standard setters should gather information on the costs to perform impairment testing before voting to replace impairment testing with amortization, we found that a majority (61%) agreed, with only 14% disagreeing and 25% not taking a view. See **Charts 8A** and **8B**.

Chart 8. Standard Setters Must Quantify Cost of Impairment Testing Before a Change in Impairment Testing



Overall Survey Results on Cost Versus Benefit

Overall, our survey finds that investors as the residual equity owners of the company believe impairment testing is a cost worth bearing to obtain the information they need. Moreover, investors want standard setters to gather the cost of impairment testing and perform a proper cost versus benefit analysis before any decision is made to replace impairment testing with amortization. Investors see the significance of the size of goodwill balances. As the comments provided throughout this document highlight, they spend a lot of time thinking about what goodwill represents and what the subsequent accounting should reveal about the performance of an acquisition. Standard setters should consider moving forward to provide more relevant, comparable, decision-useful information to investors rather than embracing a return to the opacity of the past.

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.

Investor Comments on Impairment Evaluation

Because the market seems to recognize likely impairments before management, we asked our investor members their views on the topic and how they complete their impairment assessment of goodwill. Specifically, we asked survey respondents: What factors do you believe investors look at to perform their own impairment evaluation? Their comments are included in **Box 4**.

Broadly, we found that investors do not believe that disclosures are sufficient to conduct as specific an analysis of goodwill impairment as they would like. One might ask, then, how can the market make such impairment assessment before management?

Investors, in substance, accomplish the impairment test by performing a discounted cash flow (DCF) analysis of the post-acquisition business at the company or segment level. In performing this analysis, they identify the fair value of the business is less than its book value, inclusive of the purchased goodwill, and impair the value of the business. Essentially, investors are performing the impairment test required to be performed by IFRS and US GAAP, just at a higher level. Accordingly, investors' test is less precise (or sensitive) because it is not performed at the specific reporting or cash-generating unit level, because

they lack the specific disclosures, but they are making assumptions and reaching conclusions. Ironically, investors are performing the impairment test with better, or at least more timely, recognition of impairments than management. As such, standard setters need to reevaluate whether impairment testing is the issue. Or, is the issue the moral hazard of the impairment test being performed by management as an evaluation of their own performance?

Interestingly, many of the survey respondent comments highlight that the IASB's approach of providing metrics and indicators of post-acquisition performance are more in line with what investors want and are attempting to do. Apropos to the IASB's proposed disclosure requirements, some respondents noted that the performance indicators should be predefined at the time of acquisition. In **Box 4**, we aggregate and provide excerpted respondent comments to this open-ended question.

Box 4. Investor Comments on Impairment Evaluation

Poor Disclosures: Make Performing Goodwill Impairment Analysis Challenging

- *Impairment charges against goodwill are typically made well after investors are aware that there are problems. Most investors view goodwill as an accounting measure only in a corporate transaction. Knowing how much a company paid over book value does not tell you whether the price was fair or not.*
- *Disclosures regarding the performance of that unit.*
- *In most cases it's difficult to do much in-depth analysis with available disclosure.*

Most Investors Perform Fundamental Valuation and Discounted Cash Flow of Post-Acquisition Business

- *Disclosures are frequently not granular enough to allow meaningful impairment tests. DCF models are how I evaluate it.*
- *Discounted projected cash flow to the extent they can get the data, but it will be a worse estimate than an unbiased management could perform.*
- *Ongoing robust fundamental valuation.*
- *Future free cash flows assessment.*
- *Free cash generation, preferably by segment.*
- *Essentially DCF testing or comparative multiple analysis on subsidiary company earnings.*
- *Valuation analysis, comparison with how similar assets are performing in the market.*

Investors Want to Evaluate Post-Acquisition Performance Metrics

- *Performance of the acquired asset subsequent to acquisition.*
- *Is an acquisition performing as well as initially expected?*
- *Pre and post deal growth and margins.*
- *Long-term earnings outlook.*
- *Brand value, other factors comprising goodwill.*
- *I look at ROIC vs. WACC to determine if the company post-acquisition is holding up or worsened. A significantly lower ROIC indicates a poor price or a poor business acquired.*
- *Growth and profitability of operating earnings (EBITDA or whatever is appropriate for the relevant industry).*
- *Returns, behavior of peer companies.*
- *Comparables and trends.*
- *Earnings power of the acquired assets vs original expectations, relative to purchase price paid.*
- *General recognition of the value of goodwill (intangibles) by the quality and reputation of the business. A degradation in the franchise, reputation, and value support the rationale or necessity of a change in accounting treatment.*

Impairment Indicators Predefined

- *Impairment testing indicators should be predefined at the time of acquisition.*
- *Metrics to determine the value of the ongoing business represented by the acquisitions.*

Overall

- *It's VERY subjective!*

Taken together, the substance of these comments communicates to the standard setters that improved disclosures would enable the market to hold management more accountable to timely recognition of impairments. Said differently, better disclosures is the improvement needed in financial reporting.

Cost Versus Benefit: Bringing it all Together

The assumption in the 2019 FASB Goodwill ITC that the cost of performing the goodwill impairment test exceeds the benefits is just that, an assumption. Investors believe the assumption needs to be supported by an analysis of the costs of impairment testing before the FASB votes to bring back amortization. Furthermore, the fact that investor and market participants' make goodwill impairment assessments (albeit at a higher level) more timely than management negates the FASB's assumption that the cost of impairment testing is too onerous for the company. If market participants (investors) external to the company can be making impairment assessments at no direct cost to the company, which has far more information, the FASB needs to challenge the cost argument.

Investors see the size of goodwill balances and their relative significance to the assets and equity of US (and global) companies. The cost of impairment testing is one investors are willing to bear, particularly given the fact that goodwill is nearly 30–40% of the equity in developed markets, such as the United States, Europe, the United Kingdom, and Canada.

Investors see the path forward being improving disclosures. Improved disclosures, not amortization, is the only change in financial reporting that meets the FASB's cost-benefit analysis, agenda, and improvement in financial reporting criteria.

Investors Question the IASB and FASB's Judgment in Undertaking this Project

Throughout the survey comments, you can see that investors question the standard setters undertaking this project. One respondent made a particularly colorful comment regarding the FASB and IASB's efforts on this project and whether it is an effective use of standard-setting resources, which we paraphrase as follows:

This whole project is the most significant waste of FASB/IASB resources so far.

As the IASB and FASB both are undertaking agenda consultations at this time, investors are signaling that goodwill amortization is not a top priority. Items like intangibles, financial statement presentation, and cash flows are at the top of the list.

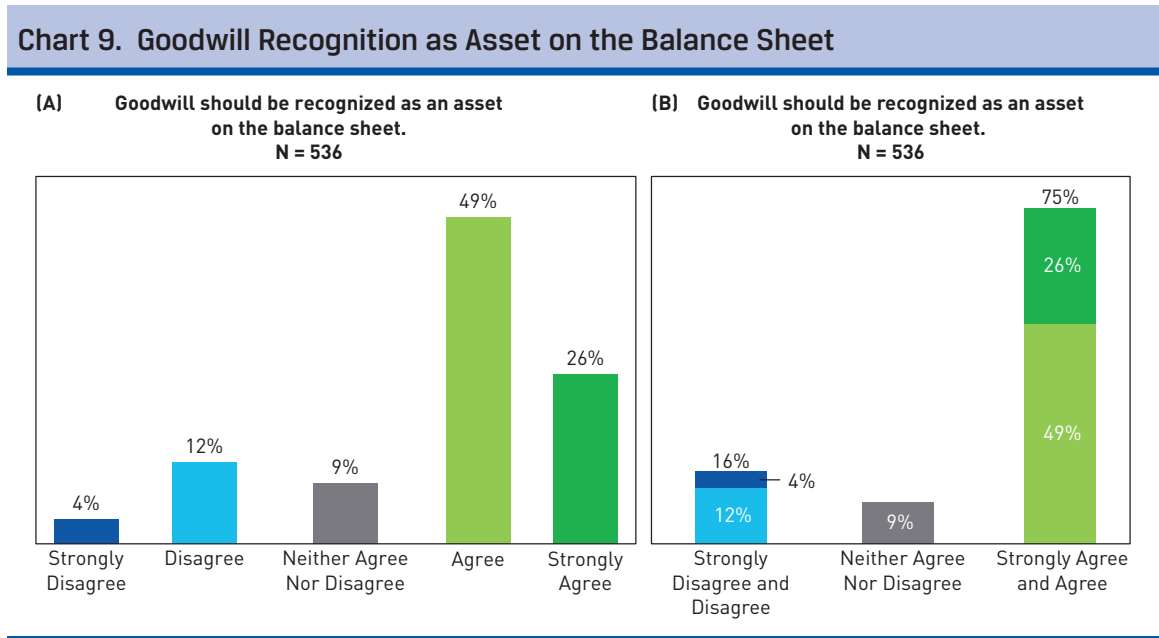
B. Initial Recognition of Goodwill

The nature and characteristics of goodwill may inform the manner in which it should be recognized and subsequently measured. Therefore, as a part of our survey, we asked our members their views on when and how goodwill should be recognized upon acquisition.

Should Goodwill be Recognized as an Asset on Balance Sheet?

When asked whether investors thought goodwill should be recognized as an asset on the balance sheet, 75% agreed that goodwill should be an asset on the balance sheet, with 26% strongly agreeing. Only 16% disagreed and 9% were indifferent about whether goodwill should be recognized as an asset. See **Charts 9A** and **9B**.

Regionally, we found that respondents in the EMEA region, more strongly agreed (31%) that goodwill should be recognized as an asset than in other regions (23–24%). We found that in the APAC region, nearly 80% agreed or strongly agreed that goodwill should be recognized as an asset.



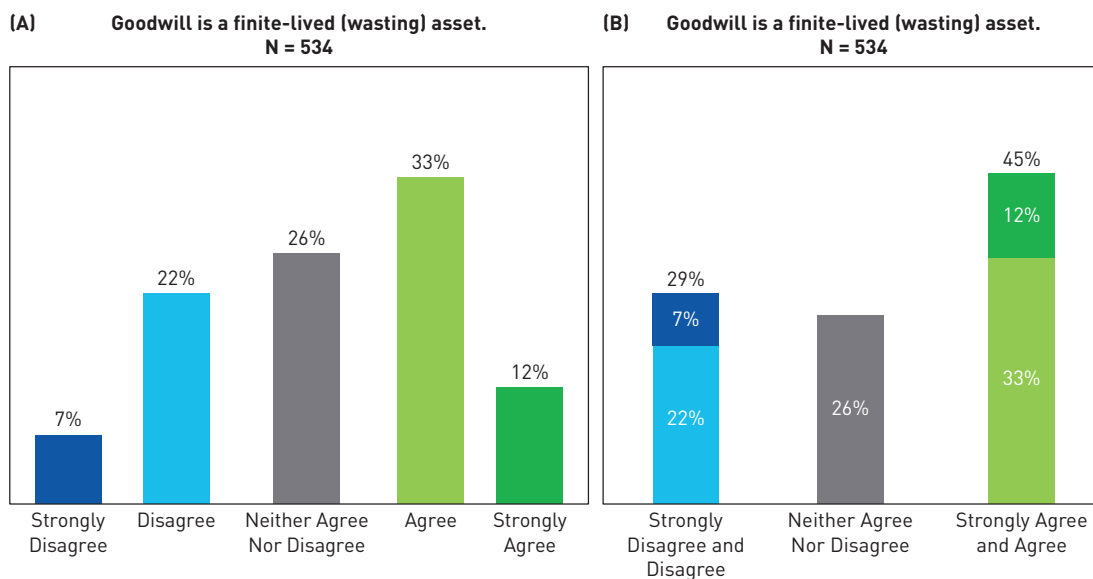
Is Goodwill a Finite (Wasting) or Indefinite (Non-wasting) Asset?

Finite (Wasting) Asset?

We asked investors whether they viewed goodwill as a finite-lived (wasting) asset. A significant minority (45%) agreed that goodwill is a wasting asset. A smaller minority (29%) disagreed that goodwill was a wasting asset. A nearly equal minority (26%) was undecided. See **Charts 10A** and **10B**.

We identified a tilt toward the fact that goodwill was a wasting asset (45%), but a diversity of perspectives was evident, with a majority of respondents disagreeing (29%) or undecided (26%) (for a total of 55%) on whether goodwill is a wasting asset. Combined, that constituency represents a majority of respondents who likely would not support an approach that automatically amortizes goodwill as such an approach presumes goodwill is a wasting asset. Impairment, in contrast, accommodates elements of goodwill that are wasting as well as those that are non-wasting.

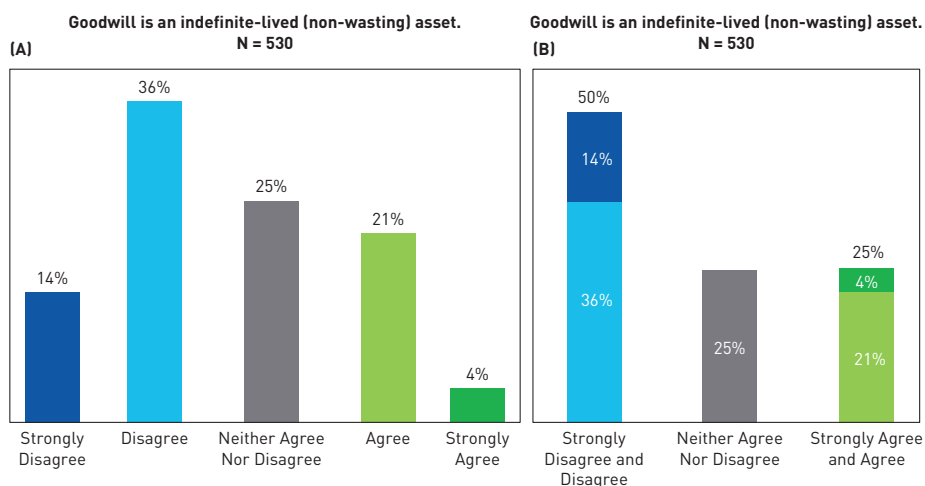
Chart 10. Goodwill as a Finite-Lived (Wasting) Asset



Indefinite (Non-wasting) Asset?

When asked the reciprocal question regarding whether goodwill represented an indefinite-lived asset, 25% agreed goodwill was not a wasting asset, with 50% (slightly higher than the 45% in the previous question) disagreeing that goodwill was an indefinite-lived asset (said differently, goodwill was a finite-lived (wasting) asset). Consistent with the previous responses, 25% neither agreed or disagreed. See **Charts 11A** and **11B**.

Chart 11. Goodwill as an Indefinite-Live (Non-wasting) Asset

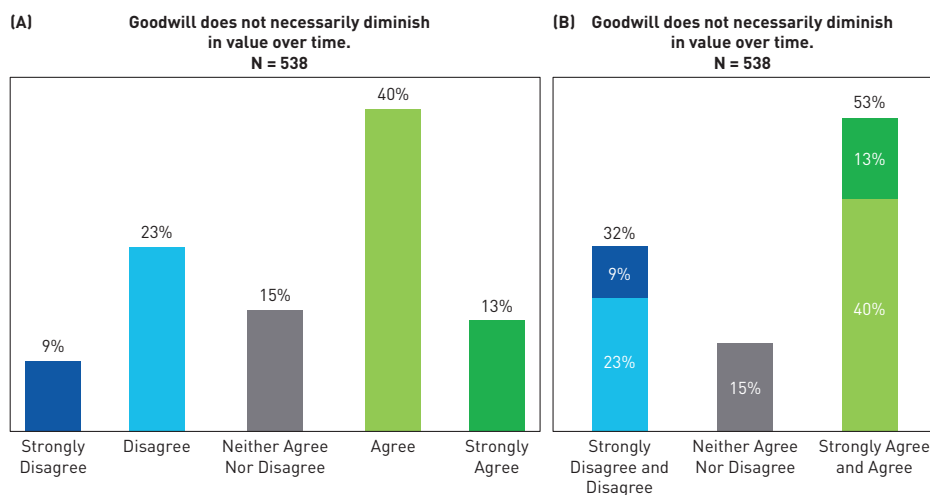


Does Goodwill Value Diminish Over Time?

When asked whether goodwill diminishes in value over time, 53% said that goodwill does not necessarily decrease in value over time and 32% disagree that goodwill does not necessarily diminish in value, with only 15% neither agreeing nor disagreeing. Overall, the majority of investors do not believe that goodwill necessarily diminishes in value over time, making mandatory amortization inconsistent with their view of goodwill. See **Charts 12A** and **12B**.

Regionally, we found that respondents in APAC disagreed more (i.e., 31% disagreed and 6% strongly disagreed for a total of 37%) than in other regions that goodwill does not necessarily diminish in value over time.

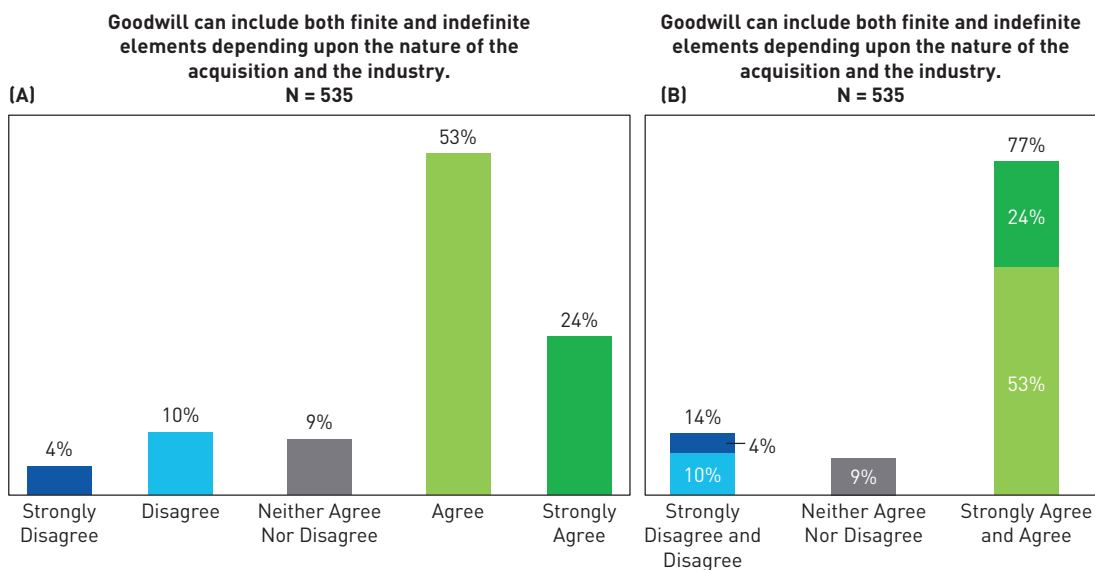
Chart 12. Goodwill Does Not Necessarily Decrease in Value Over Time



Can Goodwill Be Both a Finite (Wasting) and Indefinite (Non-wasting) Asset?

We then asked investors whether goodwill could be composed of both wasting and non-wasting elements—as our outreach suggested that many investors believe the composition of goodwill differs by industry and that companies can be less precise than they should be in their identification and accounting for other intangibles. A significant majority (77%) agreed that goodwill can include wasting and non-wasting elements. Only 14% disagreed with this view, and 9% neither agreed or disagreed. See **Charts 13A** and **13B**.

Chart 13. Goodwill as a Finite-Lived (Wasting) and an Indefinite-Lived (Non-Wasting) Asset



Goodwill Can Be a Finite (Wasting) Asset, But It Doesn't Have to Be

Overall, we found that a significant minority of respondents believe that goodwill is a wasting asset that diminishes in value over time, but that it does not necessarily have to do so. Investors see subsequent measurement of goodwill as depending on the nature of the acquisition and what goodwill represents in that acquisition. See the comments regarding the nature of the goodwill in **Box 5**.

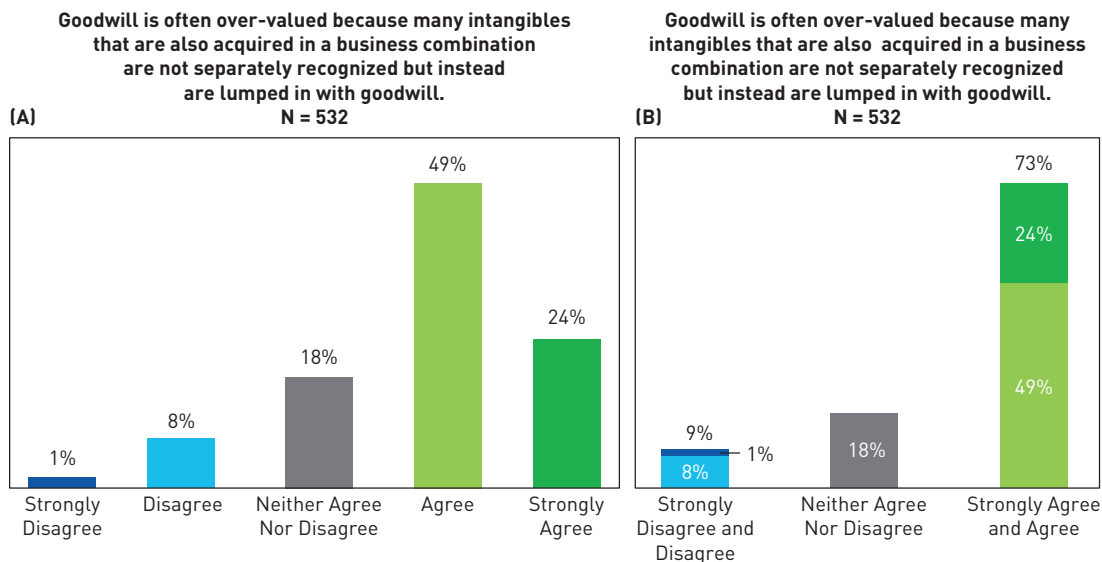
What does this mean for impairment versus amortization? Amortization ensures that goodwill is a wasting asset that is written off over time. Impairment allows the impairment test to accommodate this decrease in value, but it does not force the asset to be a wasting asset. Investors need disclosures that enable them to hold management accountable as to the value of the asset.

Is Goodwill Overvalued Because Not All Intangible Assets are Separately Identified?

The IASB's consultation on goodwill asks stakeholders whether "some" intangibles should be allowed to be aggregated with goodwill. We said no because we believe this is already happening, as evidenced by the preceding responses. Further ability to not be diligent in identifying and separating identifiable intangibles from goodwill is only likely to exacerbate this issue.

We specifically asked our investor members this question. We found a significant majority (73%) believe that goodwill is often overvalued because many other intangibles also acquired are not properly separately identified. Only 9% of respondents disagreed with this view, and 18% neither agreed nor disagreed with this perspective. See **Charts 14A** and **14B**.

Chart 14. Goodwill Is Often Overvalued



Investor Comments on the Nature and Characteristics of Goodwill

In addition to asking respondents their views, through the previous survey questions, on the nature of goodwill, we also asked for their open-ended views on the definition and nature of goodwill. We received a plethora of interesting responses. We have categorized them in **Box 5**. Some respondents provided their definition of goodwill, whereas others said they needed goodwill disaggregated into its component parts. Still others noted that goodwill differed by industry and that was hard to generalize on the definition of goodwill. Many noted that additional disclosures were necessary to discern what goodwill actually represents. Some provided other comments, as noted in **Box 5**.

Box 5. Investor Comments on the Nature and Characteristics of Goodwill

Goodwill: Finite- or Indefinite-Lived Asset

- *Goodwill is the result of a price being above value that is assignable to separable identifiable assets.*
- *Goodwill is indefinite in that we do not know when it will begin to decline in value, but it is finite-lived as are all assets on earth. Assuming, however, that all goodwill should be amortized at some arbitrary (usually fixed) rate linearly with time is almost always incorrect. [Amortization]*
- *There is no fixed life for an intangible asset. Depending on the asset and future trends it could be worth much less quickly or could maintain significant value for a generation which is why impairment gives investors better info than amortization.*
- *I do acknowledge that sometimes goodwill does reflect intangible elements that are not finite lived or wasting assets. It is a nuanced issue, but the point is to have financial accounts represent economic reality.*
- *A lot depends on the nature of the goodwill. Brands tend not to diminish over time, but if goodwill is rising because of undisciplined purchase for exorbitant prices, that's where disclosure would help. [Disclosures]*
- *One problem with goodwill is that assets that are created organically are treated differently from assets that are created via acquisition. It would be nice if two companies were identical except for whether they were created by organic investment or acquisition, that their balance sheets would look the same.*
- *Goodwill is a fantasy accounting concept in my mind. It doesn't amortize but only has limited usefulness. Either the acquisition earned it or not. Considering it as a short-lived phenomenon whereby it gets credited or charged to equity after a limited integration period would make sense in my mind. [Impairment]*

Disaggregation of Goodwill Elements

- *It would be great if intangibles were broken out but that is impractical. Acquired goodwill, in my experience, is the method by which R&D is capitalized.*
- *I think proper separation of goodwill and intangible assets covers this. Amortize the intangibles.*
- *Goodwill has many different sources of value and should be disaggregated into expected synergies, control premium, and value of future expected growth.*
- *The distinction between goodwill and purchased intangibles that are amortized is arbitrary. Further, other assets are revalued when acquired, which muddies the picture.*
- *Anything you can do around increasing the transparency of the assets in the “goodwill” bucket the better.*

Industry Specific

- *Goodwill depends heavily on the nature of the industry and the management of the company, in order to determine its value in the mid to long-term.*
- *Depends on circumstances and type of business. In some takeovers the purchaser may overpay in its desire to acquire the target company, resulting in an inflated goodwill figure. Also, some acquired businesses may be subject to competitive disruption (for example, retailing and consumer goods) while this is less likely to be the case in other industries (such as utilities). It is difficult to prescribe a “one size fits all” set of rules.*
- *Companies in different sectors (i.e. manufacturing/retailing vs. biotech) should be considered differently and perhaps follow different guidelines for their goodwill treatment.*

Disclosure

- *Whether goodwill should be treated as a perpetual asset “depends.” Hence, greater disclosure would be beneficial. [Disclosures]*
- *Increased disclosure on goodwill and intangibles, the measurement and testing of these assets would help to discern whether the asset is/has become a wasting asset or has retained its book value. The quality of the asset (and potential earnings on the asset) could then be determined. Increased (and systemic) disclosure helps the analyst determine asset quality and future effects on the financial statements. [Disclosures]*
- *I think more disclosure is generally good. Chasing the perfect reflection of economic reality is largely futile. Overvalued goodwill shows up in low ROAs and ROICs. Amortization can make bad management’s look good. There is no perfect system.*

- *As long as the numbers are fully disclosed, it should be alright. The challenges now are the disclosures are all over the place and might not be sufficient.*
- *Goodwill is a “plug”; providing more clarity on how it’s calculated and adjusted would be helpful information for investors.*

Other

■ **Valuation and Capital Deployment**

- *The debate over the appropriate treatment of goodwill is [a] philosophical one that has little benefit to investment analysis while investors remain willing to adjust earnings for such items. For me, the broader problem is the inherent bias for earnings inflation through M&A via Non-GAAP earnings adjustments. The frequency of goodwill write downs underlines the weak stewardship of investors to effectively assess capital deployments through M&A.*
- *Goodwill accounting provides important information regarding the performance of the acquisition.*
- *Regardless of how goodwill is treated in GAAP, investors know how to treat it when valuing a company or assessing its financial strength.*
- *Not all management teams are able to maintain the value of acquired goodwill.*

■ **Goodwill is Overpayment**

- *If you pay \$10 for an asset worth \$5 then \$5 should be called badwill not goodwill.*
- *Change the name from goodwill to “badwill”. If you overpay for an asset that should be called “badwill”.*
- *Goodwill should be renamed to “Amount overpaid for Acquisition”.*
- *Yes, goodwill should occur when a company pays \$10 for an asset worth \$15, rewarding management for a good purchase. Currently, management receives goodwill when they overpay for an asset – that is ridiculous.*
- *Goodwill is overvalued mainly due to higher overall valuations of targets.*

■ **Ratios/Metrics**

- *The way it [goodwill] skews ratios compared to companies with tangible assets is a meaningful problem when it comes to valuing companies.*
- *Too many companies exploit goodwill in order to lower their leverage ratios.*

Should Goodwill be Immediately Written Off Against Equity?

Previous Commentary and Size of Goodwill Balances

In our 2019 FASB Goodwill ITC Letter, we noted that some investors believe that goodwill should be immediately written off. In fact, we noted that direct write-off might be a better approach than amortization, if the FASB believed impairment testing alone needed to be abandoned.

Because of the size of goodwill, in that same letter, CFA Institute also undertook an analysis to identify companies with negative equity if goodwill was deducted from equity. That analysis appears in Appendix B of that letter, which is included at **Appendix 1** of this document.

In our 2020 IASB Goodwill DP Comment Letter, we noted that the IASB's proposal for disclosing equity net of goodwill is a worthy disclosure because of the size of the goodwill balances and number of companies with negative equity when goodwill was reduced. See the investor comments that highlight this perspective in **Box 6**.

In our analysis of goodwill balances globally, as analyzed in **Table 2** in **Section I (Background and Overview)**, we found that countries with large goodwill balances had similar findings as in the United States. For example:

- **United States:** 23% (116 companies) of the S&P 500 companies have negative equity if goodwill is deducted from the current equity balance. And 13% of the Russell 2000 (or 259 companies) have negative equity if goodwill is deducted from the current equity balance.
- **United Kingdom:** 17% (17 companies) of the FTSE 100 companies have negative equity if goodwill is deducted from the current equity balance.
- **Canada:** 11% (80 companies) of the TSX (720 companies) have negative equity if goodwill is deducted from the current equity balance.
- **Europe:** For European companies with smaller indices, the percentages are 10–12% of companies, or three to five companies in each index, that have negative equity if goodwill is deducted from the current equity balance.
- **Australia:** 9% (43 companies) of the ASX All Ordinaries (500 companies) have negative equity if goodwill is deducted from the current equity balance.

- ***Mexico and Brazil:*** For Mexico and Brazil, the percentages are 6–9% and only two to seven companies have smaller indices.
- ***Asia and India:*** As goodwill balances are minor, so was their impact on equity.

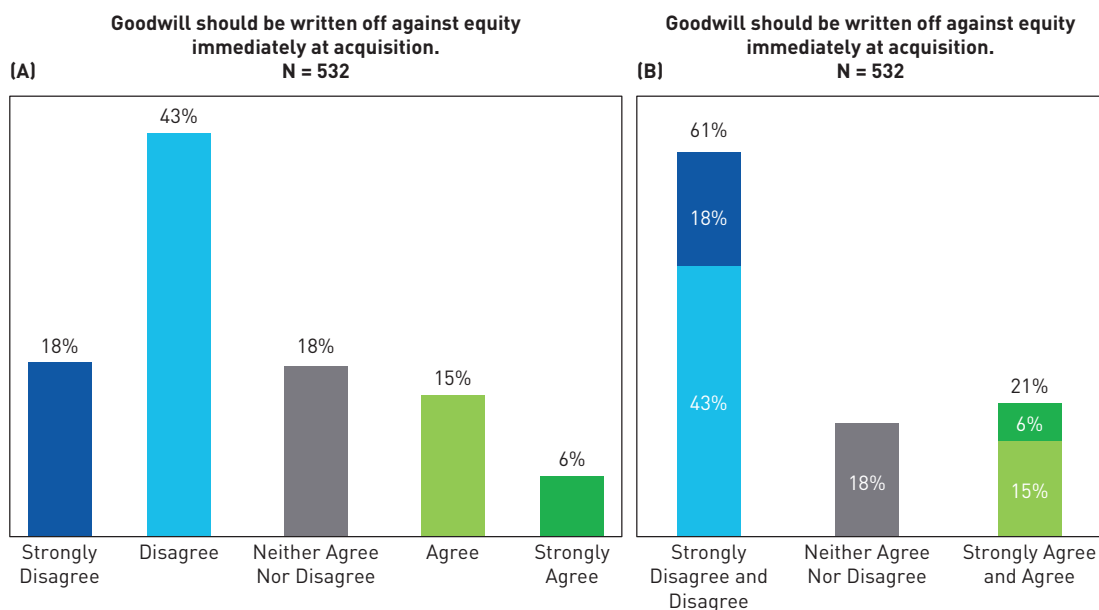
With this analysis, we find that even if goodwill balances are not written off against equity, the disclosure being proposed by the IASB has merit in highlighting the significance of equity to the company being analyzed or invested in. The analysis certainly helps standard setters see that the decision regarding amortization is no small one.

Survey Results

Because some investors have called for the immediate write-off of goodwill, or the removal of goodwill, in their analysis of company valuations, we asked our respondents for their views. We found that 61% disagreed that goodwill should be written off against equity immediately at acquisition, with 21% agreeing that goodwill should be immediately written off and 18% expressing neither agreement or disagreement. See **Charts 15A** and **15B**.

Regionally, we found that respondents in the EMEA region more strongly agreed (10%) that goodwill should be written off against equity.

Chart 15. Immediate Write-Off of Goodwill Against Equity



Investor Comments on Recognition or Immediate Write-Off of Goodwill

We did not specifically ask for comments regarding the immediate write-off of goodwill, but many of our investor respondents addressed the issue in the open-ended remarks section of the survey. Because the comments of the minority supporting the view that goodwill should not be recognized—or that it should be written off immediately to equity—were significant in the aggregate, we have included those comment in **Box 6** for consideration.

Box 6. Investor Comments on Recognition or Immediate Write-Off of Goodwill

- *When doing credit analysis, I do not include goodwill as an asset.*
- *When analyzing a company, I will often net out goodwill from equity in order to identify true equity.*
- *There should be a disclosure of book value with and without goodwill. [Disclosures]*
- *Goodwill is a fantasy accounting concept in my mind; doesn't amortize but only has limited usefulness; either the acquisition earned it or not. Considering it as a short-lived phenomenon whereby it gets credited or charged to equity after a limited integration period would make sense in my mind. [Initial Recognition]*
- *Goodwill broadly does not exist and should be written off immediately.*
- *Believe there should be tests to determine whether goodwill can have a justified value (or else written against equity) and whether it would qualify for a finite or infinite life.*
- *Accounting rules should seek to eliminate the disparity in treatment between acquired and internally generated intangible assets. Writing off goodwill immediately could be one approach to this, but not necessarily the best.*
- *Goodwill should not exist. Eliminate goodwill and reduce equity by a like amount.*
- *Goodwill is a farce. It should be removed and equity reduced by a like amount on all balance sheets.*
- *I don't think goodwill should be booked as an asset. Goodwill should be eliminated and equity reduced by like amounts.*
- *Goodwill should be written off immediately. It is not an asset.*

- *Goodwill should be written off at acquisition. Doing otherwise serves only the accounting profession. By the time goodwill impairments are taken, I already know the acquisition was a financial failure to some extent...goodwill impairments are a non-event. Granted, some of this view is informed by the sector I traffic - commercial banking. Regulators properly give no credit to goodwill in the capital structure...tangible equity is the focus.*
- *Goodwill should not exist. The asset goodwill should be eliminated from every balance sheet, with equity reduced by a like amount.*
- *In my experience as a CPA and then CFA, the goodwill and its amortization does more harm than good to the investment process: It clouds information for unsophisticated investors and makes different firms' financial statements less comparable. Writing off 100% would be the best option in my opinion.*
- *I believe goodwill should be removed entirely. The purpose of goodwill, as I see it, is to quantify a qualitative estimate of an acquisition. What about all the companies out there that have never made a purchase of a different organization, product, etc, yet which investors ascribe some level of goodwill (notably by outsized valuation measures, etc.) which is not measured on the balance sheet?*
- *I am opposed to goodwill being recorded. It should be recognized as a reduction of equity at acquisition and then subsequent earnings will prove the return on the investment.*
- *Goodwill is more an accounting gimmick than a valuable information to investors. While its existence on the asset side of the balance sheet is unfortunate, amortisation, if re-introduced, will make things even worse. Indeed, it does seem that the best approach in goodwill accounting would be to have an equity contra-account.*

Investor Comments on the Nature of Intangibles

We asked about the nature of what constitutes goodwill, but we received a significant number of comments on the nature of intangibles more broadly and the reflection of their value in the financial statements. Although this is the subject of our next survey, we share these comments in **Box 7** as they are reflective of the need for the IASB and FASB to consider the value of intangible assets—and their importance to investors.

Box 7. Investor Comments on the Nature of Intangibles

Sufficiency of Current Accounting Standards and the Importance of Intangibles

- *Today's accounting standards are not sufficient to quantify the intangible value of a company.*
- *Intangible investments play an important role in the creation of wealth of a business, but they are not necessarily fairly represented on the balance sheet. I encourage further reflection regarding the valuation of intangible capital because of the sharp increase in the role of intangibles in firm valuations on the market looking forward.*
- *The whole issue of intangibles and "goodwill" need to be thoroughly reviewed as to their economic impact. The current scheme is basically useless and impotent in its impact.*
- *The CFA Institute should frame the discussion around the choices related to goodwill accounting within the context of the broader challenge that hard-to-value intangible assets of growth and tech companies pose to the discipline of value investing more generally.*

Service Versus Manufacturing Economy

- *We live in an economy that is increasingly service and technology intensive. Book value as determined by current accounting methods is an increasingly less useful metric. Recognizing excess purchase price paid above book value as an intangible asset (goodwill, etc.) is going to become even more significant as time passes, because the real assets of most companies (the people and the intellectual property) do not show up on the balance sheet (unless they are forced to via an acquisition that recognizes that excess value). Any forced amortization of goodwill or other intangible assets produced by an acquisition is probably not the right approach. The amortization only serves to artificially depress the true profitability (and cash flow generation ability) of the business (as reported by net income). Testing goodwill (or other intangible assets related to an acquisition) is a better approach. More disclosures about that testing process would be appropriate.*
- *While companies should have latitude with accounting policy, I think a movement to standardization based on industry (hard assets vs. soft assets) is vital. The conversation probably rolls*

into what assets should show up on the balance sheet at all as the economy moves toward services vs. manufacturing.

Disparate Accounting for Internally Generated Versus Purchased Intangibles

- *There is a strong disconnect between market prices and tangible balance sheet values – indicating there is value that is not accounted for. I think a company should be able to recognize goodwill and intangibles if they are supported by some kind of discounted cash flow. At the moment, there is no consistency. So, either write them off immediately or let companies recognize intangibles such as brand values and similar intangibles.*
- *Accounting rules should seek to eliminate the disparity in treatment between acquired and internally generated intangible assets. Writing off goodwill immediately could be one approach to this, but not necessarily the best.*
- *The key problem with goodwill, in my opinion, is that it makes accounting results difficult to compare between companies that have been acquisitive compared to those that have not been. Being able to disaggregate operating performance of businesses from the impact of management's M&A capital allocation decisions on those businesses is very important for thorough analysis of companies. This is complex under current accounting treatment of goodwill.*
- *Pharmaceutical companies (and technology companies) do not have great tools for evaluating the value of intellectual property. By acquiring companies with products (about to be) on the market, they can avoid R&D expenses while most investors look through the amortization.*

Although not a specific query of our survey, we learned that investors are focused on the appropriate identification and valuation of intangibles in a world in which they are becoming increasingly important to company valuation. We think the takeaway for the FASB and IASB is that improved disclosures, recognition, and measurement of intangibles is a higher and better use of the standard setters' time than revising goodwill accounting.

Bringing it all Together: What Do These Questions Tell Us About Goodwill?

We asked questions about the nature of goodwill upon recognition, because knowing what investors think goodwill represents provides insight into the subsequent measurement of goodwill. From the aforementioned survey question, we find that investors need more information on what goodwill represents. A substantial minority believe it is a wasting asset, but they do not necessarily believe goodwill diminishes in value over time. They believe goodwill is likely overvalued because goodwill includes other intangible assets that have not been separately identified.

These responses tell us that the subsequent measurement of goodwill should not necessarily result in the scheduled write-down of goodwill by way of amortization. Notably, a majority does not believe goodwill necessarily decreases over time or is undecided. In other words, respondents do not believe amortization is an appropriate economic representation of goodwill over time. Conversely, impairment has the ability to recognize the more complex nature of the composition of the asset being represented by goodwill. Impairment can write down the wasting element of goodwill while also recognizing the indefinite-lived elements of goodwill. In the sections that follow, we ask specific questions regarding investor preferences on the subsequent measurement of goodwill, but the real issue for investors after the recognition of goodwill is how the acquisition performed, not the subsequent accounting measurement. Accordingly, standard setters need to be guided in their thinking by this “first principle.” What information is being provided to investors to make this assessment? With that in mind, standard setters must realize that the recognition of goodwill requires forward-looking measurements and disclosures. The notion that forward-looking disclosure does not belong in the financial statements is a logical fallacy or non sequitur: because the impairment testing is forward-looking, all the disclosures do is explain the forward-looking measurement.

C. Subsequent Measurement of Goodwill

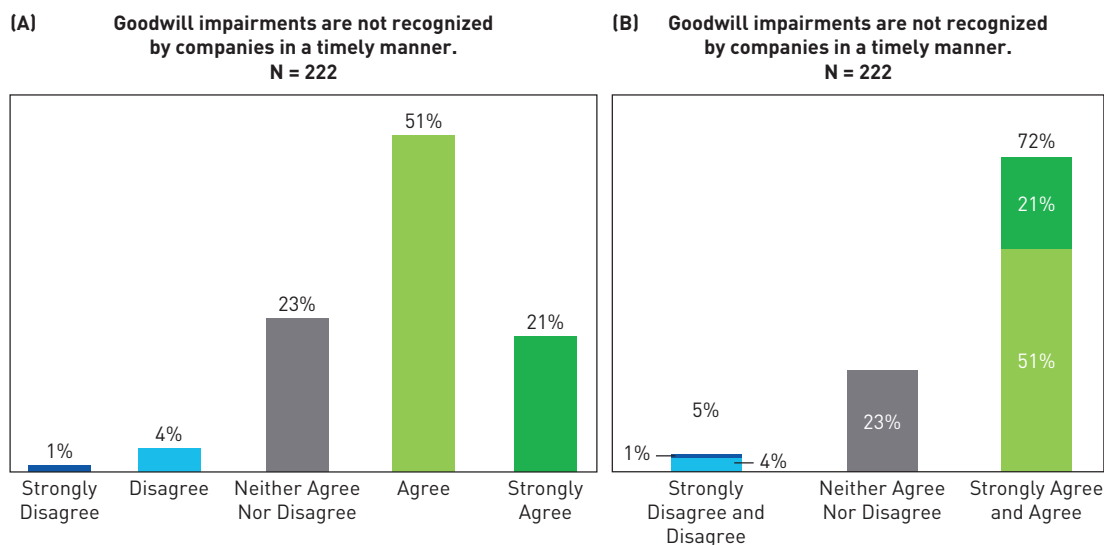
1. Impairment

Impairment Testing: Timeliness

Lack of Timely Recognition

We asked investors whether they thought impairment charges were recognized in a timely manner. Nearly three-quarters (72%) of investors agreed that companies do not recognize goodwill impairment in a timely manner, with only 5% disagreeing and 23% neither agreeing or disagreeing. See **Charts 16A** and **16B**. Regionally, EMEA respondents had an even stronger agreement (87%) that goodwill impairments are not recognized timely.

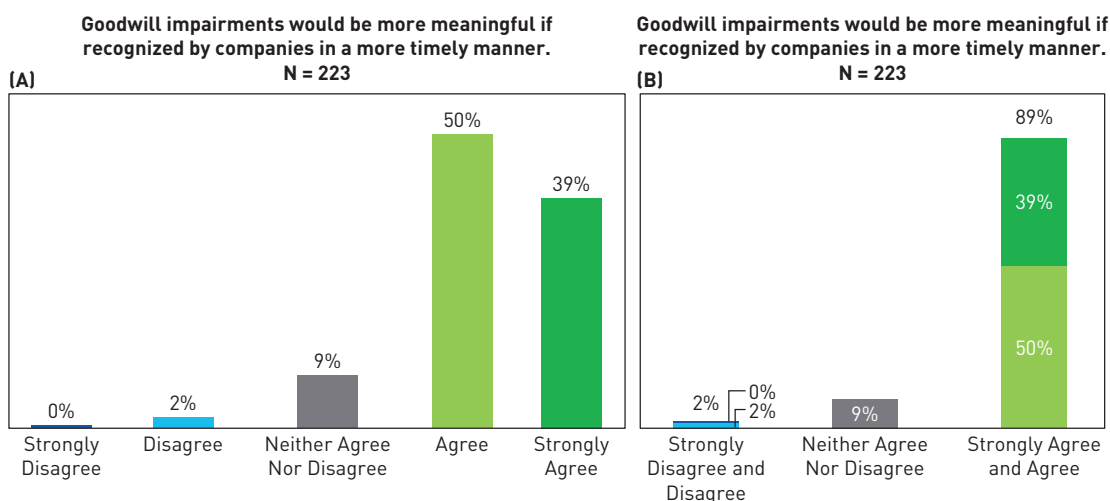
Chart 16. Timely Recognition of Goodwill Impairments



More Meaningful If Recognized Timely

We then asked investors whether they thought impairment charges would be more meaningful if recognized more timely. A significant majority (89%) of investors agreed that more timely recognition would make impairment more meaning, with only 2% disagreeing and 9% neither agreeing nor disagreeing. See **Charts 17A** and **17B**. Regionally, APAC respondents had an even stronger agreement (100%) that goodwill impairments are not recognized timely.

Chart 17. Goodwill Impairments More Meaningful with Timely Recognition



Recognized by Market Before Management

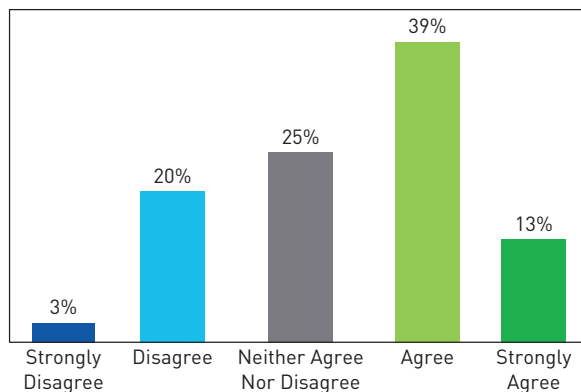
We asked investors whether they thought impairment charges were recognized in a timely manner, specifically whether impairments were recognized in a company's share price before the impairment is announced by management. Just over half (52%) of investors agreed that the market recognized impairments more timely than management, with only 23% disagreeing and 25% neither agreeing or disagreeing. See **Charts 18A** and **18B**.

Chart 18. Market Versus Management Recognition of Impairment Changes

Impairment of goodwill is often reflected in the share price of a company prior to when the actual write-off occurs and is announced by management.

(A)

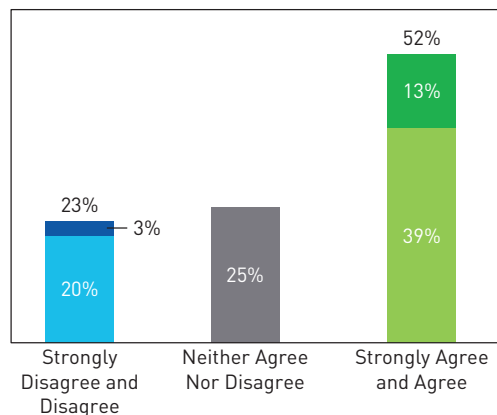
N = 193



Impairment of goodwill is often reflected in the share price of a company prior to when the actual write-off occurs and is announced by management.

(B)

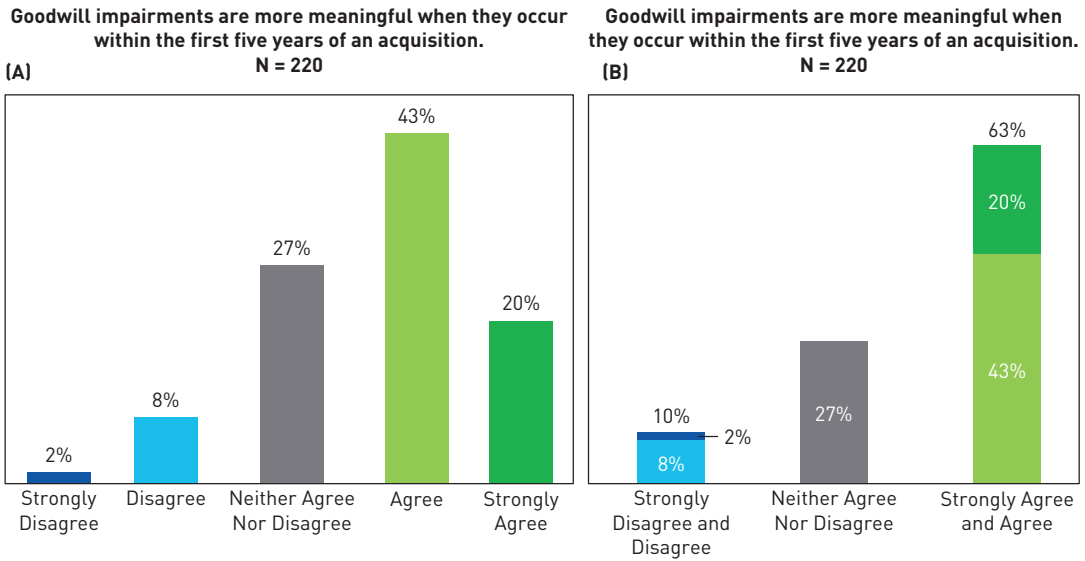
N = 193



More Meaningful If Recognized in First Five Years

When we asked whether impairment charges were more meaningful if recognized within the first five years of an acquisition (i.e., showing that an acquisition has quickly gone bad), 63% agreed, 10% disagreed, and 27% neither agreed or disagreed. See **Charts 19A** and **19B**.

Chart 19. Meaningfulness of Impairment Recognition Within First Five Years of Acquisition

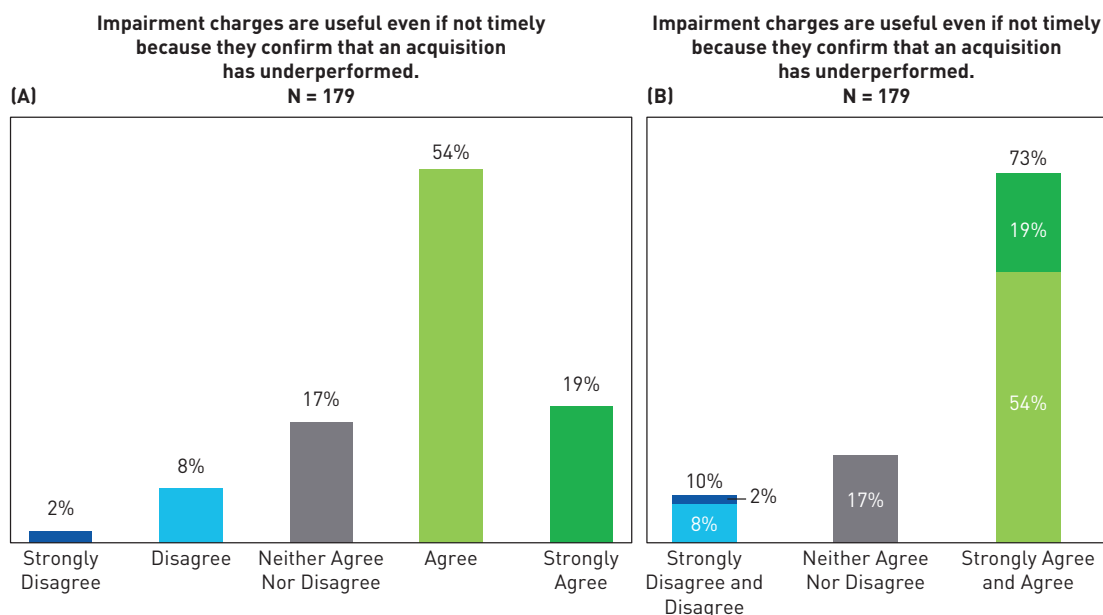


Decision-Usefulness of Impairment Charges

Impairments Confirm Underperformance

We asked our investor members whether they thought impairment charges were decision-useful, even if they were not performed in a timely manner by management. A significant majority (73%) agreed impairment charges were useful, with only 10% disagreeing and 17% neutral in their response. See **Charts 20A** and **20B**.

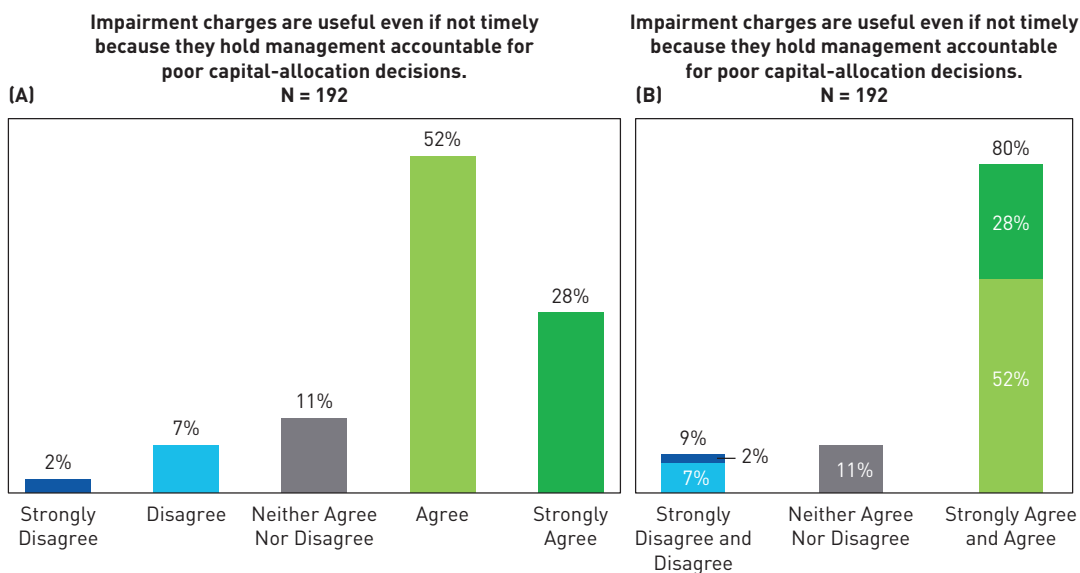
Chart 20. Impairment Charges and Acquisition Performance



Impairments Hold Management Accountable

When we asked whether impairment charges (even if not performed in a timely manner by management) were decision-useful because they held management accountable, an even higher percentage (80%) of investors agreed saying they support impairment as it holds management accountable, with only 9% disagreeing and 11% neither agreeing or disagreeing. See **Charts 21A** and **21B**.

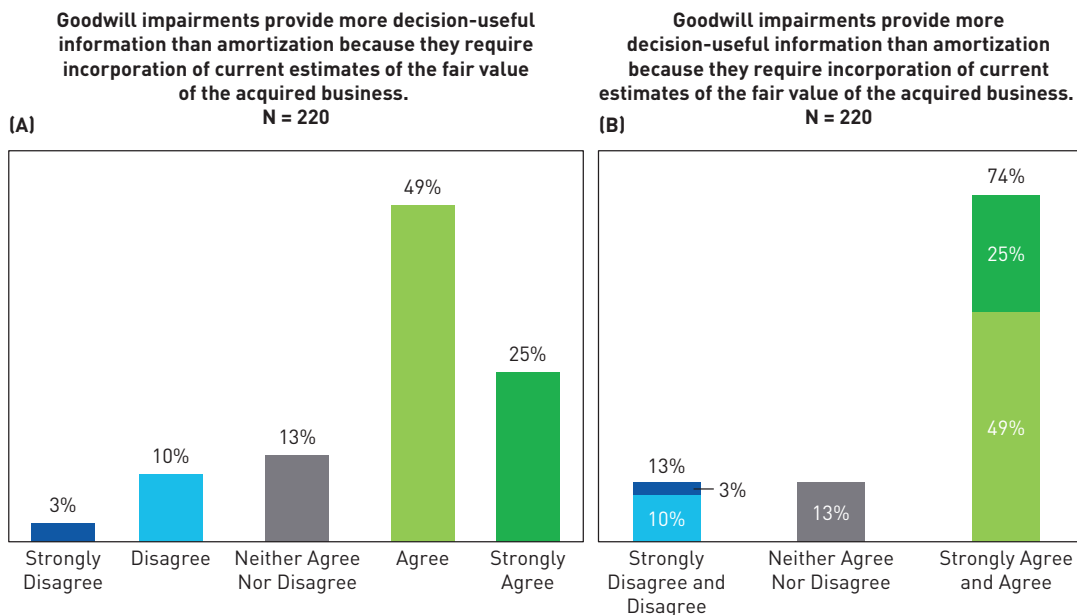
Chart 21. Impairment Charges and Management Accountability



Impairments Are More Meaningful as They Incorporate Fair Value

When we asked whether goodwill impairment charges were more meaningful than amortization, 74% of investors agreed that impairment was more meaningful than amortization because it incorporates current estimates of fair value. Only 13% disagreed or were neutral in their response. See **Charts 22A** and **22B**.

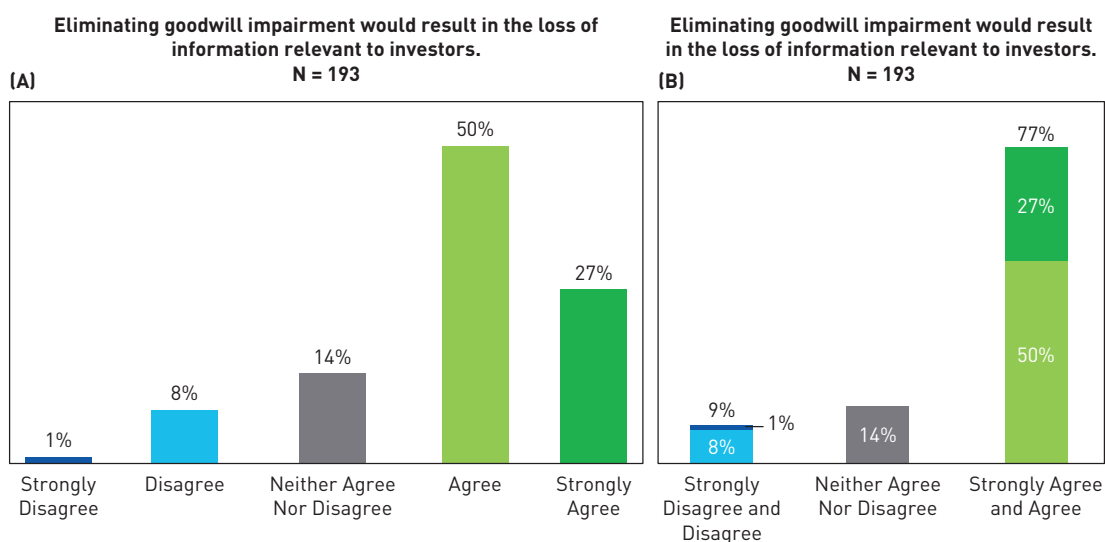
Chart 22. Impairment Charges and Incorporation of Fair Value



Eliminating Impairment Results in Loss of Information to Investors

When asked if an impairment-only approach would result in the loss of information to investors, 77% of investors agreed, with only 9% disagreeing and 14% neither agreeing or disagreeing. See **Charts 23A** and **23B**.

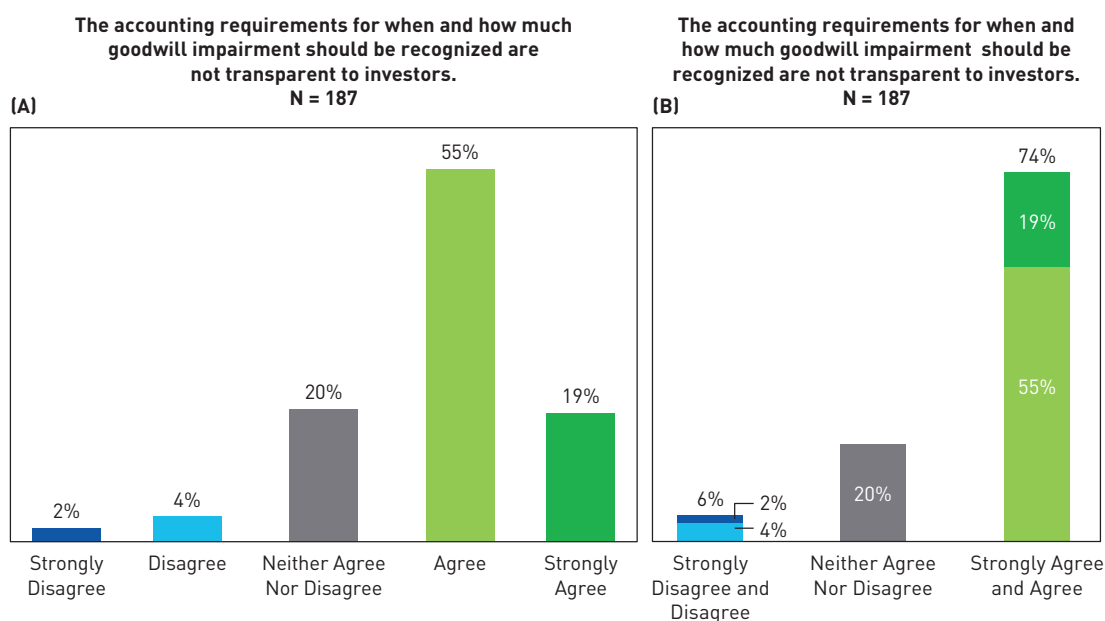
Chart 23. Impairment Charges and Relevant Information



Impairment Requirements Not Transparent

When asked whether the accounting requirements, for when and how much goodwill impairment should be recognized, are transparent to investors, 74% of respondents said they are not, with only 6% believing the requirements are transparent. See **Charts 24A** and **24B**.

Chart 24. Transparency of Goodwill Impairment Testing Requirements

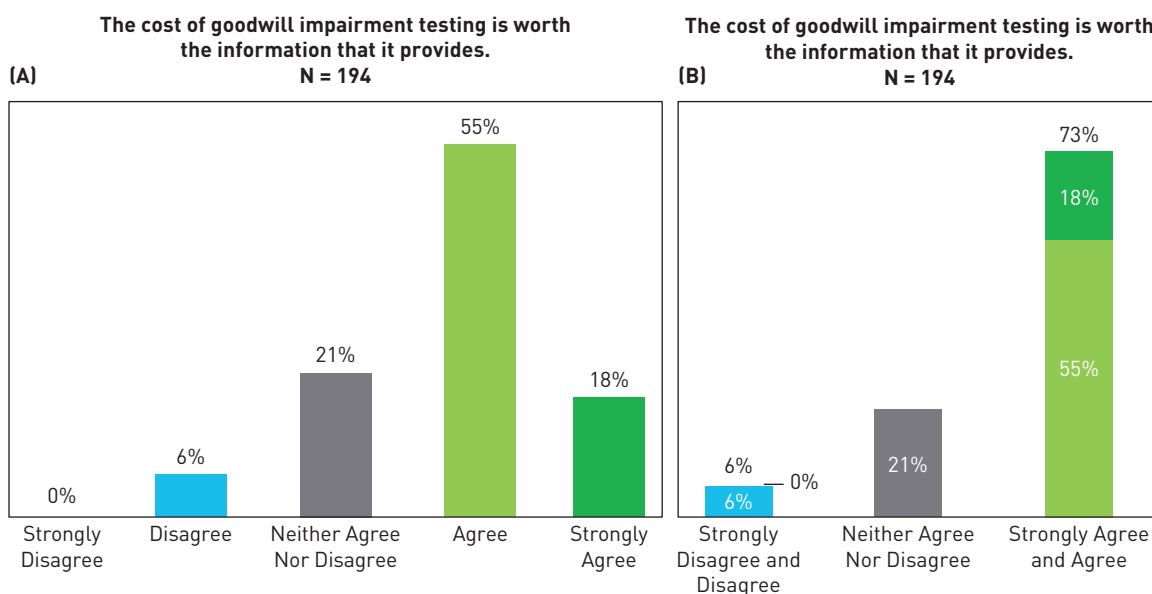


Cost of Goodwill Impairment

A Cost Investors Are Willing to Bear

When asked if the cost of impairment testing was worth the information it provides, 73% of investors agreed, with only 6% disagreeing and 21% neither agreeing or disagreeing. See **Charts 25A** and **25B**. Investors are the residual equity owners of the company, and those who ultimately bear the cost of impairment test indicate they believe it is a cost worth paying.

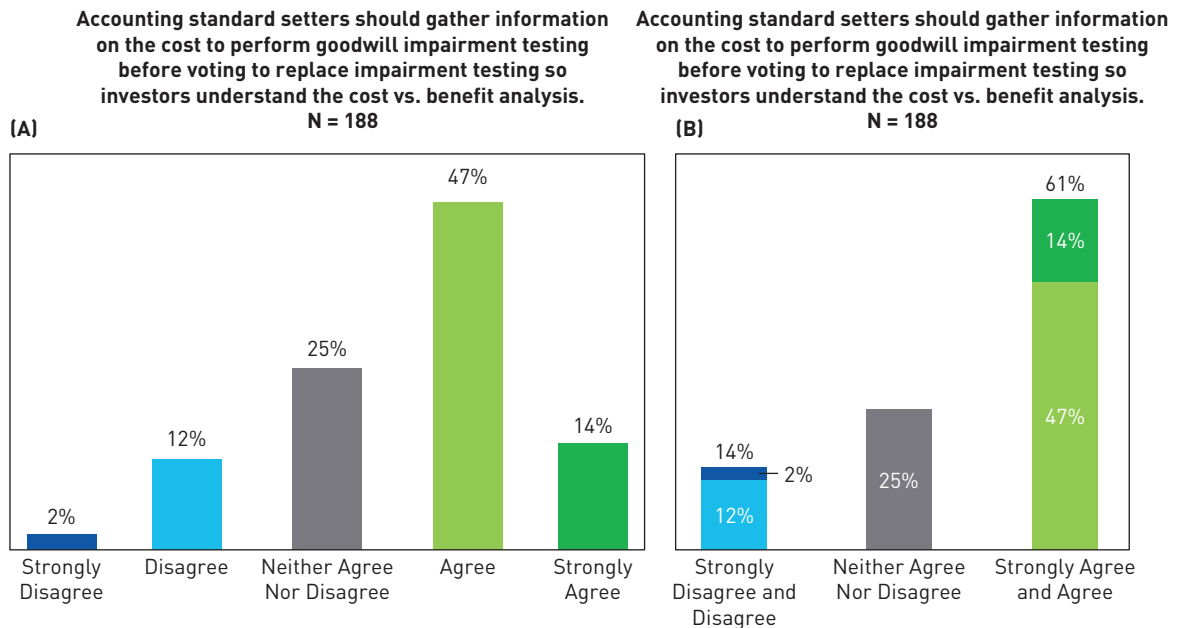
Chart 25. Cost of Goodwill Impairment Testing Versus Information Content



Standard Setters Must Perform Cost Versus Benefit

When asked if standard setters should gather the cost of performing impairment testing before voting to replace impairment testing, 61% agreed that standard setters should gather the information such that an appropriate cost versus benefit analysis may be performed. Only 14% disagreed and 25% were neutral. See **Charts 26A** and **26B**. Overall, a significant majority of respondents believe a proper cost versus benefit analysis is necessary before making a decision to change from impairment to amortization.

Chart 26. Standard Setters Must Quantify Cost of Impairment Testing Before a Change in Impairment Testing



Impairment: Bringing it all Together

Charts 27, 28, and 29 summarize investors views regarding the timeliness, decision-usefulness, and cost of impairment testing.

Timeliness

As it relates to the timeliness of impairment charges, **Chart 27** shows the following:

- 72% of investors believe impairments are not recognized timely by companies.
- 89% of investors believe impairments would be more meaningful if recognized in a timely manner.
- 52% of investors believe market participants recognize impairments before they are announced by management.
- 64% of investors believe impairments generally are more meaningful if recognized in the first five years, showing the deals that went south more quickly.

Overall, the message is that the problem with impairment testing is management's lack of timeliness in recognition, not the impairment test itself.

Chart 27. Timeliness

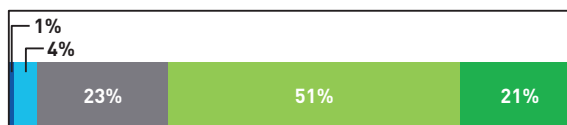
Please provide us with your level of agreement or disagreement with the following statements regarding impairment.

■ Strongly Disagree
 ■ Disagree
 ■ Neither Agree Nor Disagree
 ■ Agree
 ■ Strongly Agree

IMPAIRMENTS NOT TIMELY

Goodwill impairments are not recognized by companies in a timely manner.

N = 222



IMPAIRMENTS MORE MEANINGFUL IF TIMELY

Goodwill impairments would be more meaningful if recognized by companies in a more timely manner.

N = 223



INVESTORS RECOGNIZE IMPAIRMENT BEFORE MANAGEMENT

Impairment of goodwill is often reflected in the share price of a company prior to when the actual write-off occurs and is announced by management.

N = 193



IMPAIRMENTS MORE MEANINGFUL IN FIRST FIVE YEARS

Goodwill impairments are more meaningful when they occur within the first five years of an acquisition.

N = 220



Decision-Usefulness

Chart 28 summarizes investors views regarding the decision-usefulness of impairment charges, noting the following:

- 73% of investors believe impairments provide relevant information on acquisition underperformance.
- 80% of investors believe impairments hold management accountable.
- 74% of investors believe impairments are more decision-useful than amortization because they incorporate fair values.
- 77% of investors believe eliminating impairment would result in a loss of decision-relevant information from investors.
- 74% of investors believe existing impairment requirements are not transparent.

Overall, the message is that impairment provides decision-useful information to investors and needs to be made more transparent and not eliminated.

Chart 28. Decision-Usefulness

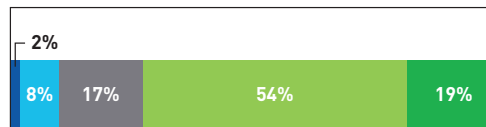
Please provide us with your level of agreement or disagreement with the following statements regarding impairment.

■ Strongly Disagree
 ■ Disagree
 ■ Neither Agree Nor Disagree
 ■ Agree
 ■ Strongly Agree

IMPAIRMENTS CONFIRM UNDERPERFORMANCE

Impairment charges are useful even if not timely because they confirm that an acquisition has underperformed.

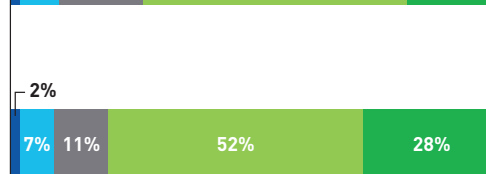
N = 179



IMPAIRMENTS HOLD MANAGEMENT ACCOUNTABLE

Impairment charges are useful even if not timely because they hold management accountable for poor capital-allocation decisions.

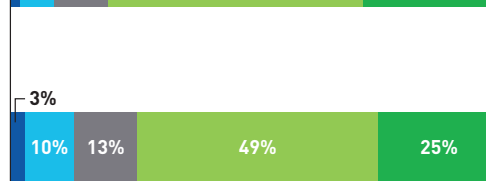
N = 192



IMPAIRMENTS MORE DECISION-USEFUL AS INCORPORATE FAIR VALUE

Goodwill impairments provide more decision-useful information than amortization because they require incorporation of current estimates of the fair value of the acquired business.

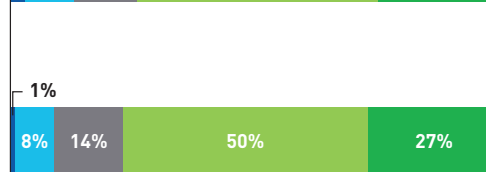
N = 220



ELIMINATING IMPAIRMENT = LOSS OF INFORMATION

Eliminating goodwill impairment would result in the loss of information relevant to investors.

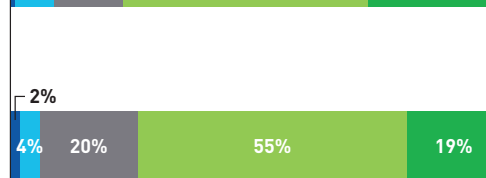
N = 193



IMPAIRMENT REQUIREMENTS NOT TRANSPARENT

The accounting requirements for when and how much goodwill impairment should be recognized are not transparent to investors.

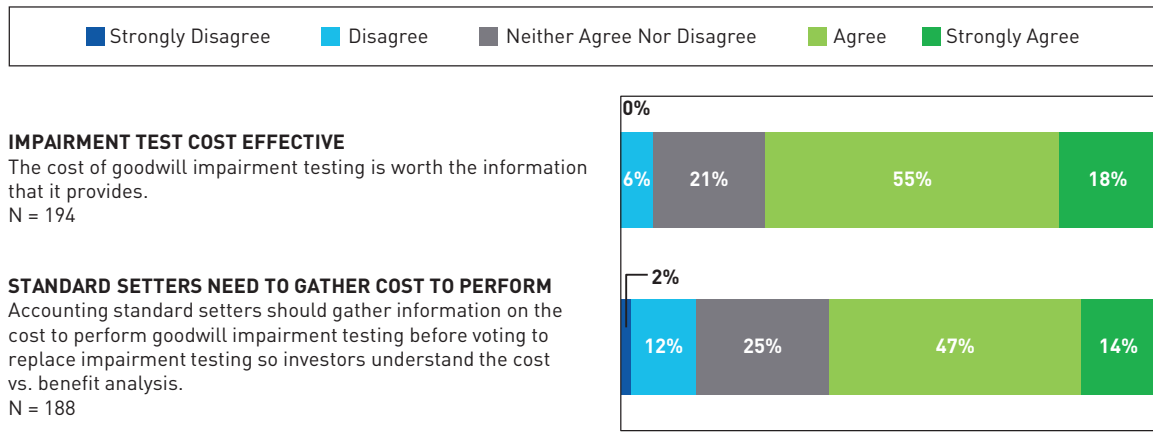
N = 187



Cost of Impairment Testing

Chart 29 summarizes investors views regarding the cost of impairment testing. Overall, investors believe (73%) that the cost of impairment test is a cost investors are willing to bear. This is particularly true if you consider that impairment accounts for 40% of the equity of the S&P 500. Investors also believe (61%) standard setters need to gather costs to enable a more effective cost-benefits analysis for impairment testing by replacing it with amortization. Goodwill is a large number and the cost of impairment testing would have to be very significant for it not to be cost beneficial to perform effective impairment testing.

Chart 29. Cost of Impairment Testing



Investor Comments on Impairment

To avoid duplication, **Section II.C.2 (Amortization)** includes comments in support of retaining impairment as well as those in support of moving to amortization. See those comments in **Box 10**. **Box 8** shows investor respondents' perspectives on the information content and usefulness of impairment, the necessary level of impairment testing, and the timeliness of impairment recognition. Also included are some candid views on the actual performance (rigor and transparency) of impairment testing.

Box 8. Investor Comments on Impairment

Information Content

- *Goodwill amortization would be effectively a meaningless number from my perspective. Impairments provide a useful signal that something is wrong at the company.*
- *Impairment test[ing] makes more sense than mechanical amortization.*
- *Goodwill [impairment] accounting provides important information regarding the performance of the acquisition.*
- *The robotic amortization of goodwill is an accounting fiction that won't increase the usefulness of financial statements. Investors had started looking through it in valuing companies. If an acquisition is meeting or exceeding expectations, why should a company write down the associated goodwill? [Amortization]*
- *Impairments should not be excluded from "core" earnings, because they are often recurring.*
- *I think the current procedures regarding annual testing are an important indicator of unit performance. Understanding the performance post-acquisition is helpful.*
- *Most analysts (including myself) do not take goodwill into account in their valuation because fair value is driven by discounted FCF. Goodwill balances and non-cash impairment or amortization thereof have no impact on this. That being said, how management allocates capital going forward does have an impact on valuation, and this is something qualitatively that is taken into account. If the company has a history of making poor or overpriced acquisitions it will weigh on their fair value. So this information is useful and I do look if the company has a history of non-cash impairments.*
- *There is no fixed life for an intangible asset. Depending on the asset and future trends it could be worth much less quickly or could maintain significant value for a generation which is why impairment gives investors better info than amortization.*

- *I think more disclosure is generally good. Chasing the perfect reflection of economic reality is largely futile. Overvalued goodwill shows up in low ROAs and ROICs. Amortization can make bad managements look good.*

Level of Impairment Testing

- *There seems to be a lot of freedom for companies to decide on impairment testing for cash generating units (CGUs). We have seen cases, where restructurings of CGUs seem to be designed to avoid impairments by moving problematic units, which have been acquired, into a larger CGU. While management should have flexibility to restructure segments and CGUs, it would be really helpful to have disclosure requirements for the performance of acquired units. [Disclosures]*
- *Goodwill needs to be assessed against original acquisition assumptions for at least 3 years following an acquisition and not commingled with existing business units. [Disclosures]*
- *Goodwill is an enormous number which sweeps a lot of the purchase price under the rug. It would be helpful if goodwill could be categorized under a handful of relevant buckets to better understand its makeup. Investor and board scrutiny would rise, as would a quicker decision re write-downs.*

Timeliness of Impairment Recognition

- *While goodwill is an important aspect in accounting for any acquisition price, I feel it is often not written down in a timely manner.*
- *Companies wait too long to address [impairment] issue.*
- *Under the current policy, bad acquisitions are easier to hide or at least easier to postpone the quantitative reckoning. That said, sophisticated investors usually know when an acquisition is underperforming. But individual investors are probably overvaluing the stockholders equity of companies that are active acquirors.*

Impairment Testing Needs More Rigor, Transparency, and Auditor Oversight

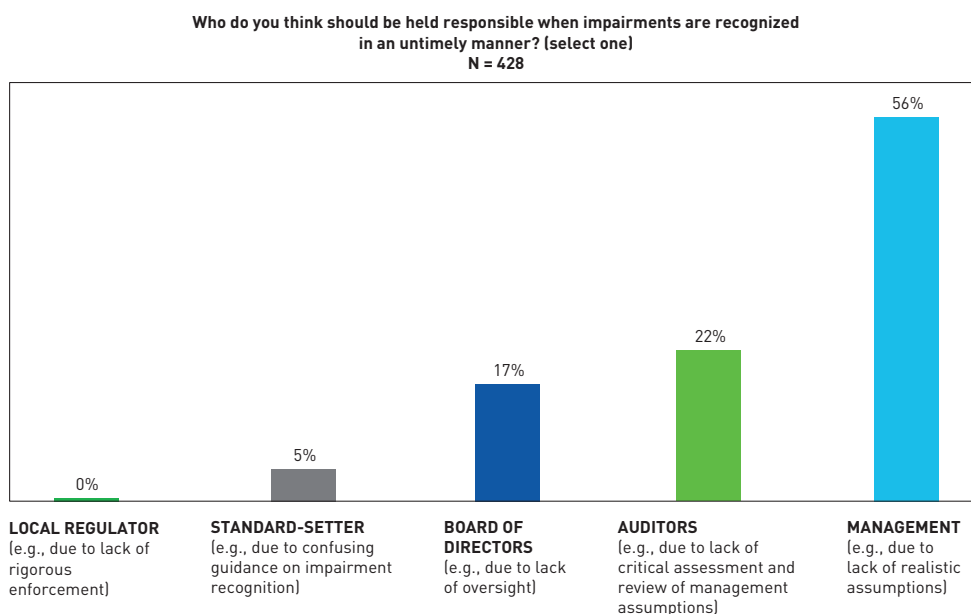
- *Goodwill testing by auditors is a sad joke.*
- *The current treatment of goodwill is imperfect, but the alternatives also have drawbacks. Robust auditor challenge to goodwill carrying values is essential.*
- *Test for impairment of goodwill should be made public.*
- *Goodwill bloats up the balance sheet. If it is written off, then the actual leverage and balance sheet size will be visible. Impairment is subjective based on many macro and company specific assumptions which can be manipulated and made to serve the interest of the management.*

- *Auditors should be evolved with dashboards and analysis model specific to the fair valuation of intangible assets, but since this is subjective, they may have a hard time getting used to the idea.*
- *Greater visibility and explanation of impairment testing would help.*
- *Annual testing of goodwill by an independent appraiser should be required of public companies and more information about the methodologies and key assumptions utilized need to be provided to investors in the disclosures – this is useful information and provides data about management’s ability to utilize the company’s capital effectively.*
- *The current model of impairing goodwill is flawed because it is extremely opaque and basically a “trust me” exercise by management and the accountants. Management teams will go to great lengths to avoid writing off goodwill from previous acquisitions because it admits that they made a poor decision. This is why such impairments usually only happen when management changes, or it is so glaringly obvious they made a poor decision that a write-off becomes necessary (by which point, the market knows it anyways). The impairment process should be much more transparent, with the company disclosing exactly how it revalues the acquired asset and the inputs that went into that, i.e. valuation multiples, EBITDA, or even a DCF.*

Investor Comments on Responsibility for Untimely Impairments

In addition to querying investor members on the information content and usefulness of impairments as noted earlier, we also asked who should be accountable for the untimely impairment recognition. As expected, management was deemed most responsible, with 56% saying management should be held accountable. Interestingly, investors saw auditors slightly more responsible (22%) than directors (17%) for the failure to timely recognize impairments. Only a small portion of investors (5%) considered standard setters responsible because the standard was hard to apply. See **Chart 30**.

Chart 30. Responsibility for Untimely Impairments



Regionally, respondents in the Americas had an even stronger view (60%) that management was responsible, with only 16% seeing the board as responsible. In APAC, by contrast, respondents believed more strongly (28%) that the board was responsible, with only 40% believing management was responsible. In EMEA, nearly half (49%) said management was responsible, with only 17% seeing the board as responsible. The responsibility of auditors was more consistent at 21–26% between regions, with APAC being the highest at 26%.

Respondents provided us with a bit more context for their views on who should be held responsible for impairment testing (see **Box 9**).

Box 9. Investor Comments on Responsibility for Untimely Impairments

Overall

- *Many parties bear the responsibility for untimely goodwill impairment. These include management and the board, but in these cases the auditors are signing off year after year on goodwill assumptions that are too aggressive.*
- *Impairment charges or lack thereof should not be solely at the discretion of management. The board of directors should bear some responsibility and so should the auditors as well as investment bankers who underwrite financings. It's called due diligence and I don't see much of it these days.*
- *It isn't just one party. The BoD is also responsible for failing in oversight or not asking the right questions. The auditors may have some minor culpability but that would depend on the case.*
- *It should be management, the Board and the auditors.*
- *Errors should impact management, the board, auditors, and regulators.*
- *Companies tend to avoid impairing goodwill since it makes management look bad (i.e., basically admitting that an acquisition was overpriced). There should be greater transparency into how the goodwill balance was evaluated for impairment, i.e. the valuation methods used and detailed disclosure into the inputs. It should not be an opaque "trust management and accountants" process because management will always try to avoid impairing goodwill and the accountants usually go along with it.[Disclosures]*
- *Successful acquisitions create value through time; therefore, impairment is more appropriate. Conflicts of interest can arise with management, and auditors may not be best suited to make the valuation assessment. Better disclosure on integration and performance of the acquired business is a good start as it would enable the securities analyst to better form her/his own judgment. [Disclosures]*

Management

- *We cannot rely on management to realistically assess the value of the goodwill they put on the books by purchasing other companies. They almost always are looking through rose-colored glasses at the marvelous trophy they purchased. Straight-line amortization imposes a more realistic assessment of declining value through time. And, in fact, because things transpire so quickly in this era, realistic amortization should be confined to ten years maximum.*
- *Management is aware of true business health and may put off issues for future and are incentivised to hide from board and auditors to keep their jobs or bonuses.*

Auditors

- *Management (including the BoD) should be realistic about goodwill valuations, but auditors should carefully question and scrutinize those assumptions based on their knowledge of comparable asset impairments and valuations in the industry.*
- *Auditors will always agree with impairments as impairing assets is a conservative approach. An interesting study would be to look at new management actions with respect to impairments. The big bath effect seems quite common!*

Board

- *Ultimately the Board has responsibility to create procedures by management which require appropriate recognition of impairment in a timely way when it is recognized.*
- *Tough topic. Intangibles have economic value until they are recognized as real world impaired. (Brands, patents, particularly tech patents). Management and Board may not have the incentives to recognize impairment in timely manner until the market forces the issue.*
- *The Board is ultimately responsible for strategy apart from the US where the chairman is commonly the CEO but this is a perennial governance issue with US companies.*
- *The audit committee of the board of directors should have a review together with the auditors, recommended to the board the policy adopted, and should be scrutinized yearly.*

Regulators

- *Regulators need to take this more seriously.*

2. Amortization

We then asked investors their views on amortization. Specifically, why amortization is an inferior or superior model to impairment. The following responses reveal why amortization may be seen as both an inferior model and a superior model. We also provide an analysis of respondents' comments in favor of amortization and those in favor of impairment (as highlighted in the previous section).

Amortization Is an Inferior Model

Doesn't Allow Investors to Discern Good Versus Bad Managers

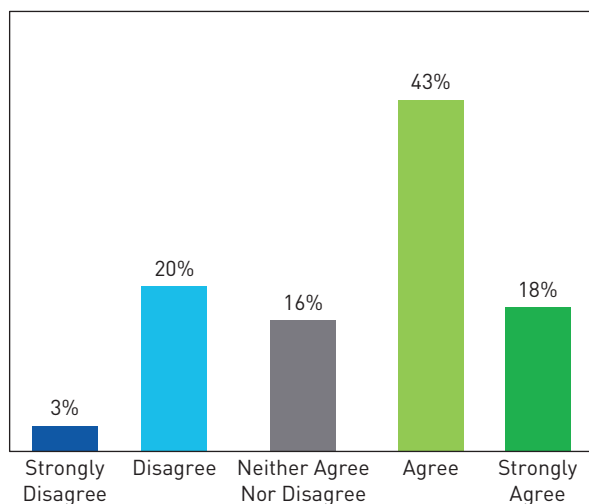
Investors (61%) indicated that amortization is inferior because it does not allow them to distinguish between those managers who successfully execute an acquisition transaction and those who do not. Only 23% of investors disagreed and 16% were agnostic. See **Charts 31A** and **31B**.

Chart 31. Amortization and Impact on Ability to Compare Managers

Amortization of goodwill is an inferior model because it is the same across companies and so does not allow investors to distinguish between managers who successfully execute on acquisitions.

(A)

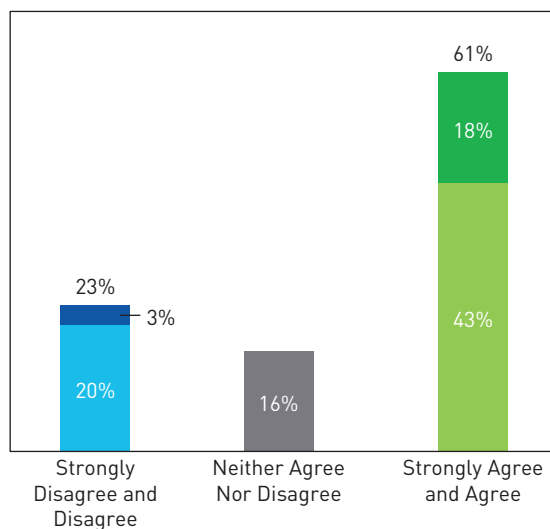
N = 386



Amortization of goodwill is an inferior model because it is the same across companies and so does not allow investors to distinguish between managers who successfully execute on acquisitions.

(B)

N = 386



Amortization Distorts Financial Metrics

Furthermore, 63% of investors recognized that amortization is inferior because it distorts performance by improving trends (e.g., ROE and ROA) in profitability ratios. As a result of the systematic decrease, amortization provides a decrease in equity and assets, while likely being added back to operating earnings. Only 16% disagreed and 21% neither agreed or disagreed. See **Charts 32A** and **32B**.

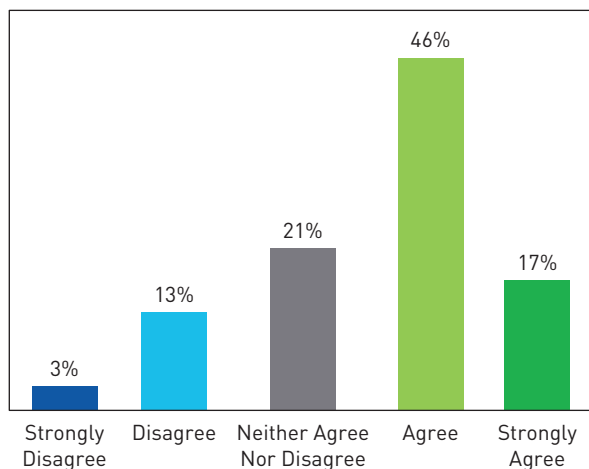
Regionally, APAC respondents agreed less strongly with the view that amortization distorts financial metrics, with only 46% agreeing or strongly agreeing compared with the overall average of 63%. This response likely was due to the fact that goodwill balances are much smaller in this region, so the effects on ratios would not be as significant.

Chart 32. Amortization and Impact on Financial Metrics

Amortization of goodwill is an inferior model because it distorts performance by improving trends in profitability ratios (e.g., ROE and ROA), as equity and assets systematically decrease with amortization.

(A)

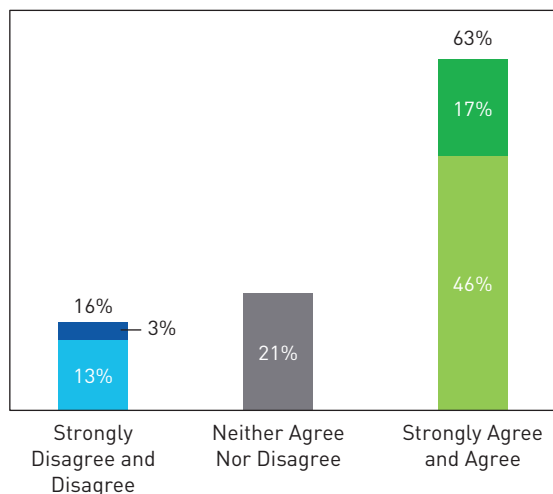
N = 383



Amortization of goodwill is an inferior model because it distorts performance by improving trends in profitability ratios (e.g., ROE and ROA), as equity and assets systematically decrease with amortization.

(B)

N = 383

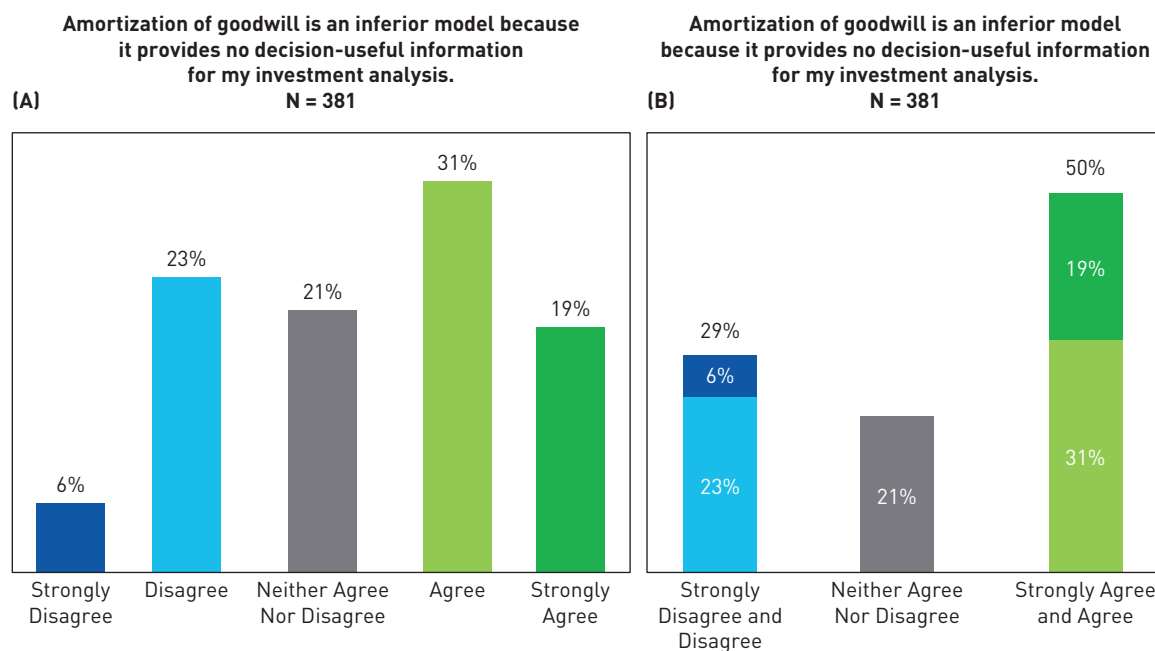


Amortization Does Not Provide Decision-Useful Information for Investment Analysis

Half of investors (50%) believe amortization is an inferior model because it does not provide decision-useful information for their investment analysis, whereas 29% of investors disagreed with this perspective, and 21% neither agreed nor disagreed. See **Charts 33A** and **33B**.

Regionally, APAC respondents agreed less strongly with the view that amortization does not provide decision-useful information, with only 37% agreeing or strongly agreeing compared with the overall average of 50%. Again, this view likely was due to the fact that goodwill balances are much smaller in this region, so the effects on analysis of amortization would not be as meaningful.

Chart 33. Amortization and Impact on Provision of Decision-Useful Information

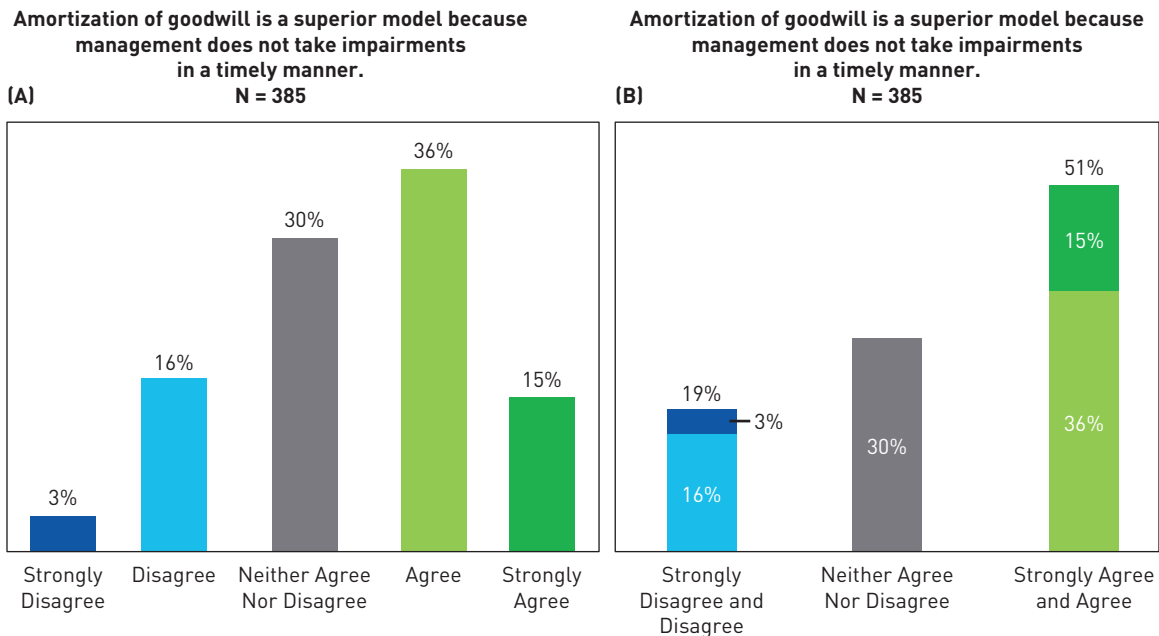


Amortization Is a Superior Model

Amortization Makes Up for Untimely Impairments

When asked what makes amortization a superior model, we found that 51% of investors agreed that amortization is a superior model because management does not take impairments in a timely manner, with 19% disagreeing with this conclusion. A significant minority (30%) neither agreed or disagreed, signaling that many investors find it hard to conclude that amortization is the best cure for improper performance of impairment tests. Regionally, respondents in APAC (where the goodwill balances are lowest) more strongly agreed (64%) that amortization was a superior model because of a lack of timely recognition. This response compared with an overall average of 51%. See **Charts 34A** and **34B**.

Chart 34. Amortization Versus Lack of Timely Recognition of Impairments



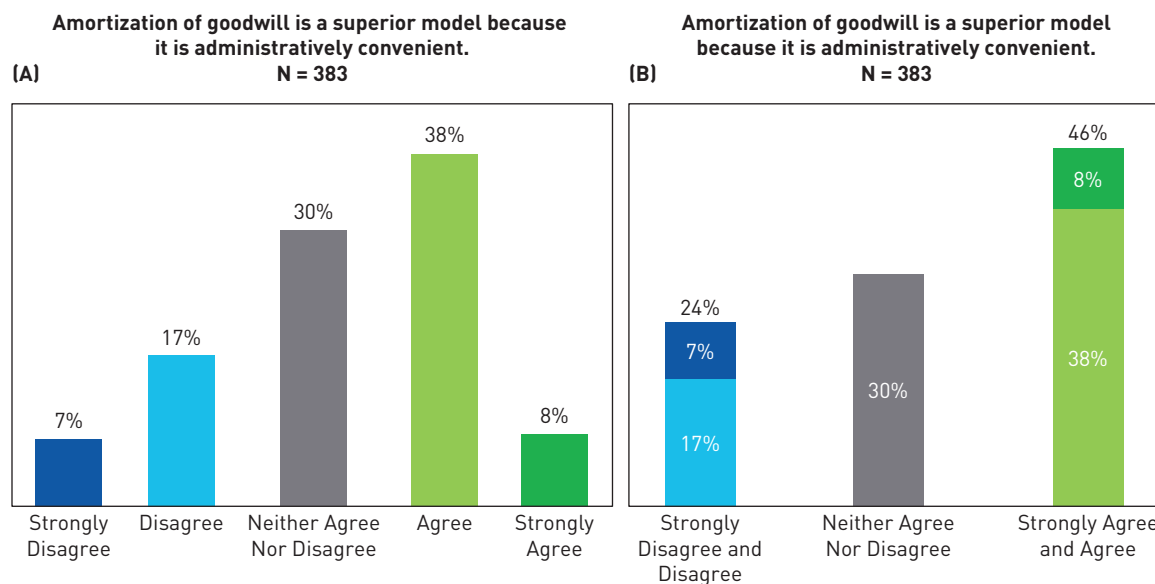
Amortization Is Administratively Convenient

When asked whether amortization was a superior model because it was administratively convenient a significant minority, nearly half (46%) agreed. Only 24% disagreed and 30%, as in the previous question, signaled that many investors find it hard to conclude that administrative convenience should be the basis for an accounting policy decision.

Regionally, respondents in APAC (where the goodwill balances are lowest) most strongly agreed (63%) that amortization was a superior model because it was administratively convenient. This result compared with an overall average of 46%. We identified differences in the Americas, with only 42% agreeing or strongly agreeing, and in EMEA, with 54% agreeing or strongly agreeing, that amortization was a superior model because of its administrative convenience.

Overall, it seems respondents had a hard time saying that a model was superior because it was administratively convenient rather than because it was economically relevant. See **Charts 35A** and **35B**.

Chart 35. Amortization as an Administrative Convenience



Amortization and Matching of Acquisition Revenues with Cost of Acquisition

Only 38% agreed that amortization was superior because it resulted in better matching of the revenues from the acquisition with the cost of the acquisition, and nearly as many (37%) disagreed or strongly disagreed with that perspective. Those who were agnostic to this view dropped from other questions, with only 25% neither agreeing or disagreeing with the view that amortization creates better matching of the wasting of the goodwill asset with the revenues generated by the acquisition. This response likely revealed differences in opinion not only on how best to subsequently measure goodwill but also on whether it is a finite- or an indefinite-lived asset.

Regionally, respondents in APAC (where the goodwill balances are lowest) most strongly agreed (57%) that amortization was a superior model because it matches the cost of acquisition of the future revenues from the acquired business. This result compared with an overall average of 38%. We identified differences in the Americas, with only 34% agreeing or strongly agreeing, and in EMEA, with 43% agreeing or strongly agreeing, that amortization was a superior model because it matches the cost of acquisition of the future revenues from the acquired business.

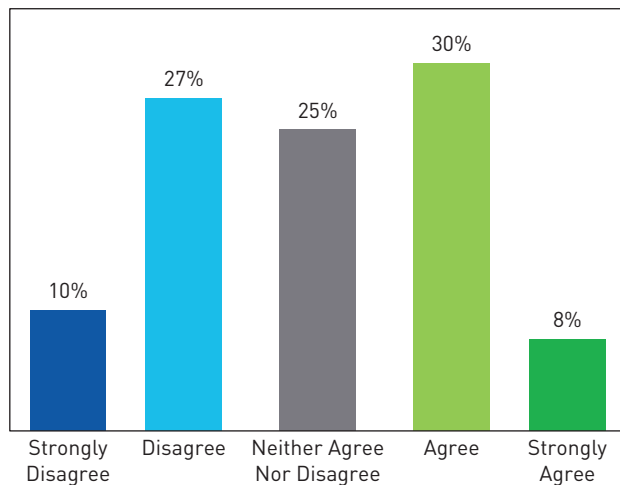
Overall, respondents had a hard time saying that amortization was a superior model because it matches the cost of acquisition of the future revenues from the acquired business, when it likely would be a straight line. See **Charts 36A** and **36B**.

Chart 36. Amortization and Matching of Revenues and Costs

Amortization of goodwill is a superior model because it matches the cost of an acquisition with the future revenues that the acquired business generates.

(A)

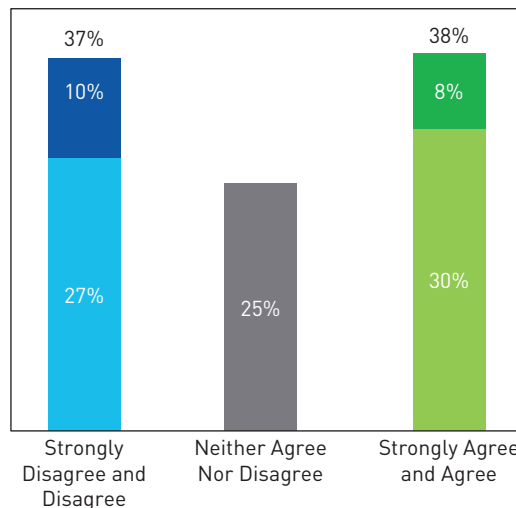
N = 383



Amortization of goodwill is a superior model because it matches the cost of an acquisition with the future revenues that the acquired business generates.

(B)

N = 383



Investor Comments on Amortization Versus Impairment

In addition to the earlier questions about amortization versus impairment, we asked respondents to provide us with a basis for their responses. The comments provide additional insight and texture to the survey question responses.

In **Box 10** we have categorized the comments by those that are supportive of amortization and those that are unsupportive of a move to amortization, preferring the retention of impairment. Those who preferred amortization over impairment appeared to have this preference because they believe goodwill's value erodes over time, impairment tests are highly subjective, impairment is not taken timely by management, and impairment is not as predictable. Comments, and our survey results, show that those in support of amortization also believe amortization should be done only in combination with impairment.

Box 10. Investor Comments on Amortization Versus Impairment

SUPPORTIVE

Value of Goodwill Erodes Over Time

- *Goodwill should be amortized, as we've seen that acquiring companies lose value (decreased stock prices) after acquisition and target company gives better returns.*
- *In my analytical process, goodwill is not important as a component of a company's net worth or balance sheet strength. It's use is in accounting for past acquisition expenditures when calculating RoCE, RoE and similar metrics. Acquired goodwill erodes over time because the management actions taken to create it gradually depend more on the acquiring management team's actions than those of the acquired management team. Ad hoc impairments are lumpy and therefore regarded as "below the line" items by the analytical community and management teams themselves. A regular charge*

UNSUPPORTIVE

Analytical Considerations

- *Amortization of goodwill introduces a host of new issues which ultimately don't factor into fundamentals/projections since they are non-cash. It would be far more useful to introduce a few sub-components of goodwill and analyze those.*
- *Goodwill is more of an accounting gimmick than valuable information to investors. While its existence on the asset side of the balance sheet is unfortunate, amortisation makes things only worse. [Path Forward]*
- *It is not in investors interests (not users of financial statements generally) to amortise goodwill. Goodwill [impairment] on acquisition provides a scorecard for capital allocation that will be sorely missed. Its removal will reduce accountability and make performance more opaque in acquisitive companies.*

SUPPORTIVE

going through the income statement would more likely be incorporated in “above the line” analyses, and keep acquired goodwill values more in line with the true value of the acquired asset over time.

- *Just as other useful assets have a depreciation schedule, so should goodwill even if the “life of the asset” is much longer than that of physical assets because competitive advantage, intellectual property and/or brand value require reinvestment over time in order to maintain their productive relevance.*
- *Goodwill is in a way an equivalent of buying a capital asset and hence it is better to amortize it, which will provide better estimate of profitability. Conversely, not amortizing goodwill results in suppressed ROAs for indefinite period which misguide investors on the real return profile of the business.*

Subjectivity of Impairment

- *Bringing back amortisation would remove any subjective assessment of goodwill from management.*
- *Amortization was objective, impairment is based on assumptions and is subjective. There is a clash of interests. No management will want to show a costly acquisition or decline in value of their assets. hence, amortization should be brought back. The value of any acquisition is captured in the earnings, why keep the goodwill in books which is an intangible asset and not valued correctly.*
- *The timing of charges, being subject to many variables, both seen and unseen, result in confusing outcomes which regulations are not solving. Subjective decisions vs. more rigid regulation is difficult tradeoff. There is some justification for some smoothing effect of amortization.*

UNSUPPORTIVE

- *Reintroduction of amortisation of goodwill would be a disaster for measuring returns, and provides an additional lever for management to smooth or manipulate earnings.*

- *The robotic amortization of goodwill is an accounting fiction that won't increase the usefulness of financial statements. Investors had started looking through it in valuing companies. If an acquisition is meeting or exceeding expectations, why should a company write down the associated goodwill? [Impairment]*

- *Goodwill is indefinite in that we do not know when it will begin to decline in value, but it is finite-lived as are all assets on earth. Assuming that all goodwill amortized at some arbitrary (usually fixed) rate linearly with time is almost always incorrect. [Initial Recognition]*

- *For God's sake don't go back to amortization. Investors just need disclosure about acquisition performance and the inputs used to value goodwill for impairment determination. [Disclosures]*

- *I am not in favor of switching to a goodwill amortization model because it (very slightly) complicates the accounting. I would rather know the historical cost basis of the goodwill and keep it at that and then management can impair if need be.*

Amortization Is Ignored by Investors

- *Most analysts ignore GAAP numbers and focus on the adjusted numbers, which ignore any form of goodwill amortization.*

- *Amortization on the income statement is a waste of space. Most analysts add it back as a noncash charge and so it has little effect on analysis.*

SUPPORTIVE

- *Huge asset writedowns hurt investors, especially if a company is not forthcoming about future impairment issues. Amortization takes care of it, but different goodwill might be valuable over longer periods than others.*

Amortization with Impairment

- *Amortize as the default, with the option to write down as an impairment if the purchased asset is clearly impaired vs. the price paid.*
- *Goodwill is an expense that should be amortized, but it should also be tested regularly.*
- *Amortization and impairment test should not be mutually exclusive.*
- *Impairment testing without amortization always leads to a complete write-off of goodwill at one time. It is nonsense.*

Predictability Versus Volatility

- *Goodwill should be amortized instead of written down at arbitrary periods to decrease volatility of balance sheet changes.*
- *Amortization is more predictable.*
- *Current method is too lumpy.*

Other

- *Goodwill amortization could incentivize management to pay less of a premium for acquisitions, given the future earnings charges the transaction would cause.*
- *Amortization should be compulsory and no choice.*

UNSUPPORTIVE

- *Whatever the amortization amount, my analysis will normalize the income statement, particularly since it is not a cash expense and is not a tax deduction.*
- *Amortization is a non-cash charge that has no predictive value for future cash flows. Investors will simply remove it from their modeling.*
- *Ultimately, investors will add back goodwill amortization to determine cash earnings, so this debate is form over substance. Easier for everyone to simply not have to take another adjustment into account and leave goodwill accounting as it is today. [Path Forward]*

Other

- *Leave it as is and impair if necessary over time.*
- *I would not reinstate [amortization].*
- *I hope it [amortization] never comes back!*

Conversely, those who do not support amortization hold this view because they (a) see the analytical problems caused by amortization—that is, artificially improving ratios simply because of the passage of time; (b) believe amortization provides no useful information on the performance of the company and the acquisition and reduces the decision-usefulness of financial statements; and (c) believe goodwill can decrease in value over time but that impairments, unlike amortization, have information content on management’s capital allocation decisions. Furthermore, they note that most investors and analysts remove amortization from their analysis by adding back the deduction. Adding back amortization should not, however, be equated with adding back impairments. Although they both are added back to arrive at normalized operating earnings, the impairment charge has information content when it is taken, whereas amortization has no information content. Adding back both is more of a reflection of an inadequate statement of cash flows. Adding back of goodwill impairment and amortization should not be equated, other than to allow investors to arrive at EBITDA, because the statement of cash flows is not effective at arriving at operating cash flows.

Amortization Period

Preferred Amortization Method or Period

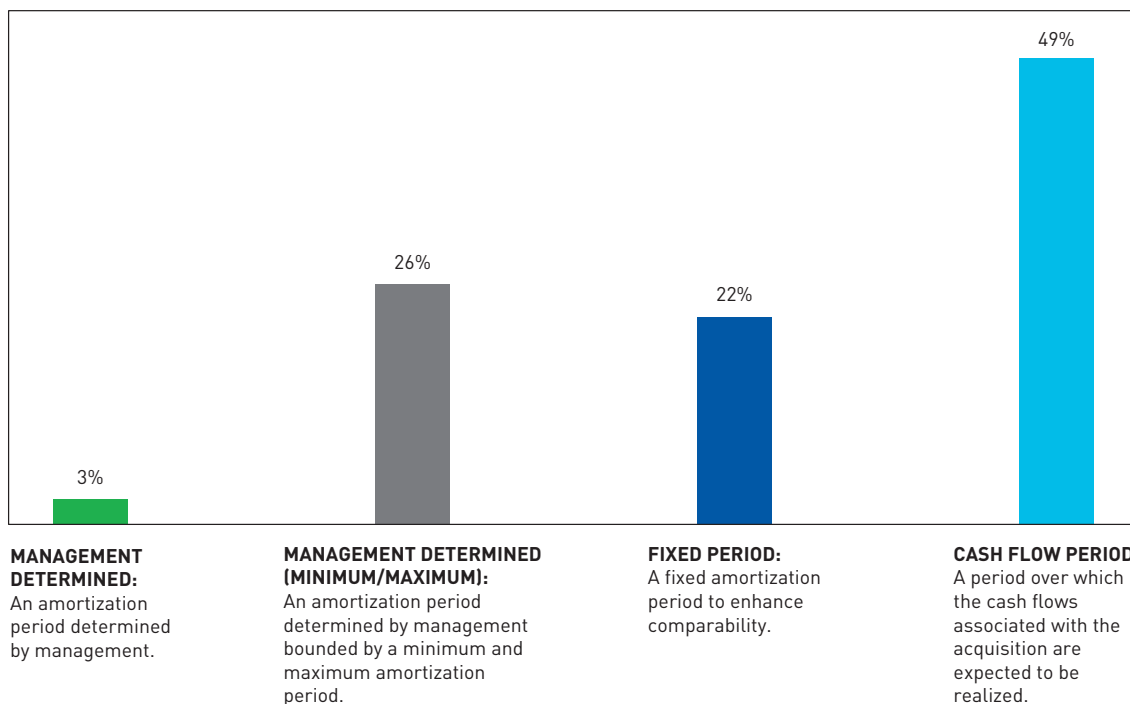
If amortization were to be reinstated, we asked our investor members what amortization period or method they would prefer:

- **Cash Flow–Based Amortization Period:** 49% of respondents agreed the amortization period should be the period over which the cash flows related to the acquisition are to be received.
- **Management–Determined (Minimum/Maximum) Period:** 26% of respondents preferred an amortization period determined by management with a minimum and maximum amortization period.
- **Fixed Amortization Period:** Only 22% agreed a fixed amortization period consistent for all companies, such as the 10-year period being considered by the FASB, was appropriate.
- **Solely Management–Determined Period:** Investors did not support an amortization period solely determined by management, with only 3% supporting such an option.

Regionally, we found more agreement in the Americas (54%) than overall (49%) that the amortization method or period should be the period over which the cash flows related to the acquisition are to be received. Only 31% of those in APAC agreed this was the best choice, with 42% in EMEA. Respondents in APAC (34%) and EMEA (35%) more strongly supported the amortization period being determined by management with a minimum and maximum amortization period. Respondents in APAC most strongly favored the fixed amortization period, with 34% selecting this option compared with 22% overall. See **Chart 37**.

Chart 37. Amortization Method or Period

If amortization is reinstated, the amortization period should be: (select one)
N = 364



Investor Comments on Amortization Period

Respondents provided comments on the nature of the amortization period. Broadly, these comments reflected a desire to tailor the amortization period to the nature of the acquisition as well as the cash flows and the economics of the transaction with some minimum and maximum standards. Representative comments appear in **Box 11**.

Box 11. Investor Comments on Amortization Period

- *Management should have some discretion but there should be some standards.*
- *The amount of amortization should be a function of the amounts/revenues expected to be received annually.*
- *No general rule can be a silver bullet. Amortization should reflect economic reality, as much as possible.*
- *If amortization is reintroduced, the rate of amortization should be allowed to vary in line with the degree to which the outcomes (sales, market share, etc.) vary.*

Transition Method

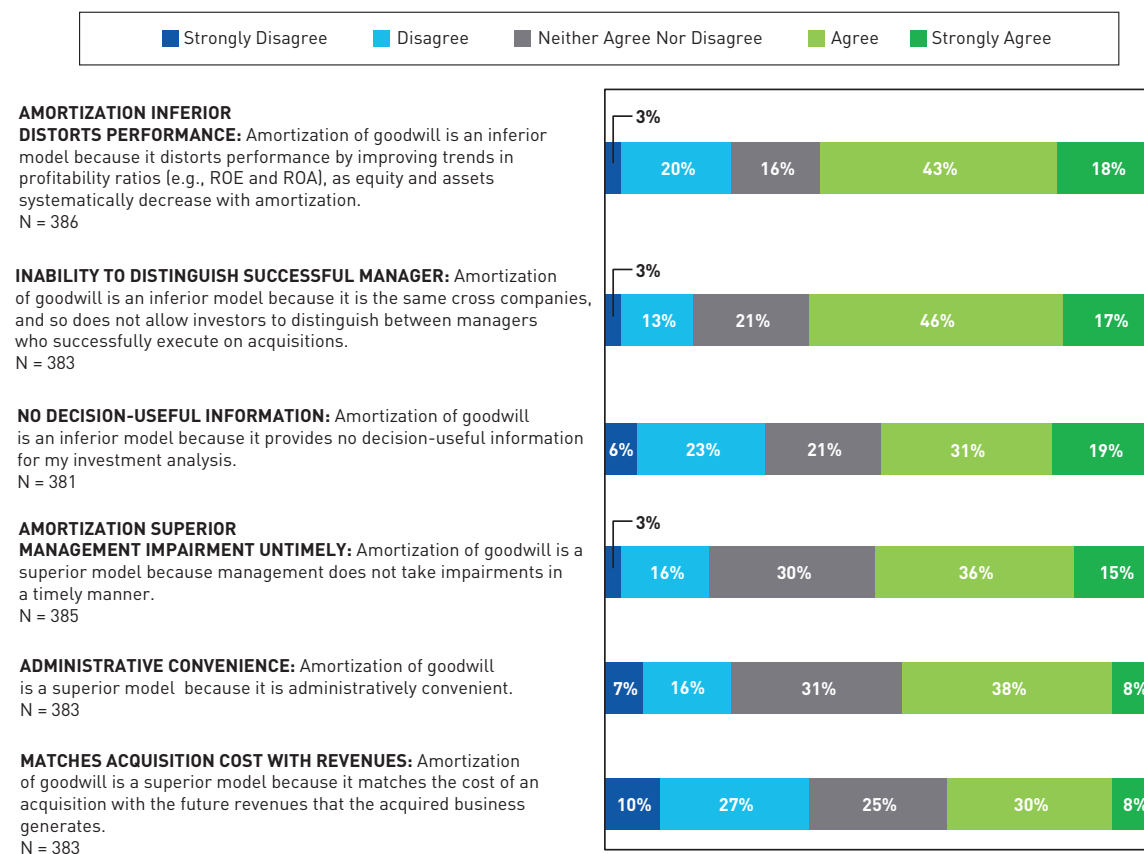
We did not ask members which transition method they would prefer if there was a change to amortization. If the FASB were to decide to amortize over a period of 10 years, this would have an enormous impact on the income statement and equity of US public companies, as we highlight in **Section I (Background and Overview)**.

Amortization: Bringing it all Together

Chart 38 summarizes respondent views on why they perceive amortization to be inferior to impairment and why they believe it may be superior to impairment. In simple terms, the majority of respondents believe amortization is inferior because it distorts performance, does not allow them to distinguish between managers who are successfully acquisitive and those who are not, and does not provide decision-useful information. Those who believe it is superior to impairment do so principally because it is an administratively convenient approach to the lack of timely recognition of impairments by management, and not because they believe it matches acquisition costs to the related revenues acquired. Should amortization be implemented, however, respondents did seek an amortization period, and method, that connects amortization of goodwill to the period over which cash flows related to the acquisition are to be received.

Chart 38. Amortization Inferior Versus Superior

FASB and IASB are both considering returning to a model where goodwill is systematically amortized over its useful life.



3. Amortization or Impairment: Additional Thoughts

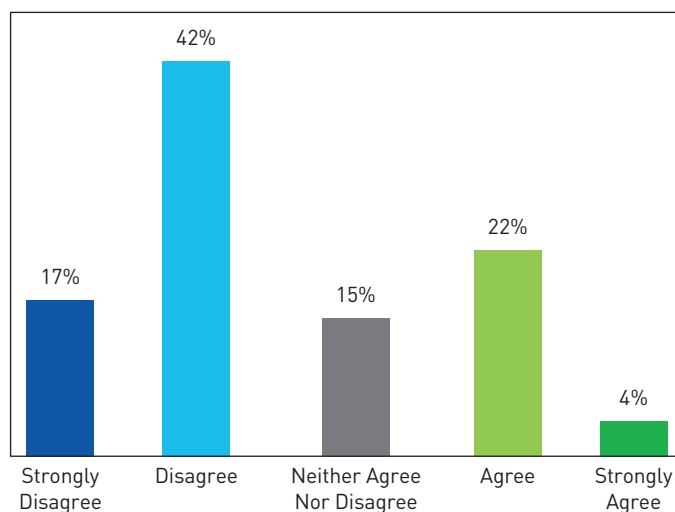
Subsequent Measurement as a Policy Choice

Should Subsequent Measurement (Impairment Versus Amortization) Be a Policy Choice?

We asked investors whether companies should be able to choose their subsequent measurement method: amortization or impairment. We found that investors (59%) disagreed strongly that subsequent measurement should be a policy choice. Only 26% agreed that companies should be able to choose, with 15% neither agreeing or disagreeing. See **Chart 39**.

Chart 39. Subsequent Measurement of Goodwill as Policy Choice

Companies should be able to make a policy choice on impairment vs. amortization approach.
N = 370

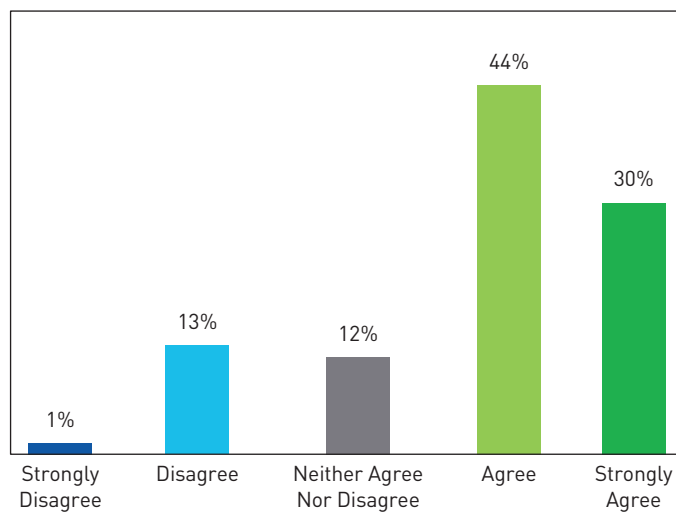


If Companies Could Choose Subsequent Measurement Policy, Should the Choice Be Consistent for All Acquisitions?

Investors (74%) agreed that if companies were able to select the subsequent measurement as a policy choice, the policy choice should be consistent across the company and all its acquisitions. See **Chart 40**.

Chart 40. Subsequent Measurement of Goodwill as Policy Choice Across The Organization

If companies are allowed to choose between impairment and amortization, the choice should be consistent for all acquisitions.
N = 370



Merged Versus Separately Managed Acquisitions: Amortization or Impairment?

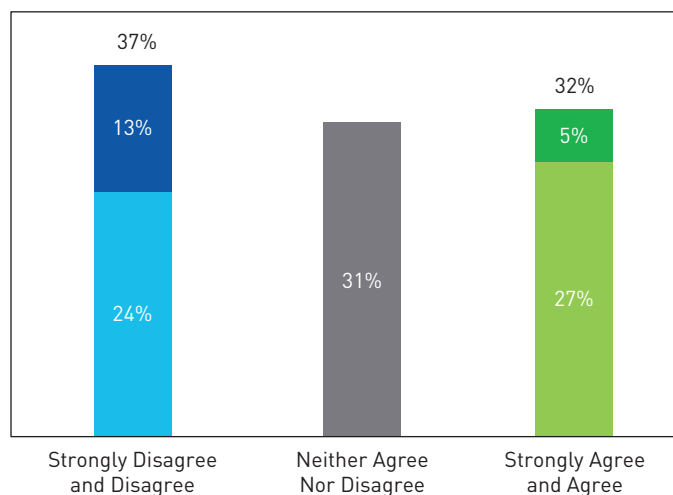
Many preparers complain that acquisitions merged into an existing business or reporting unit are more challenging to perform impairment testing upon because the profits of the existing business unit, once merged, support the goodwill acquired in the business combination. Said differently, the existing business reduces the likelihood that even an unsuccessful acquisition will ever result in an impairment. Recently, the IASB and FASB have coined the term “shielding” (a term of accounting art) as shorthand for this situation. The standard setters seem to be proposing that amortization is a better subsequent measurement approach for acquired goodwill when it has been integrated into another business. Without amortization of such goodwill, impairment testing will likely have to occur into perpetuity because the existing business diminishes the likelihood of impairment of goodwill. Essentially, this makes a possible finite-lived goodwill asset an indefinite-lived asset.

We asked investors whether they thought there should be different subsequent accounting (i.e., amortization) for acquired and merged businesses. Investors were approximately evenly split on whether there should be different accounting guidance for acquisitions managed separately on a go-forward basis versus those merged with a company’s existing business units. Slightly more respondents (37% versus 32%) said they believe it was inappropriate to account for goodwill differently based on whether the business acquired was merged into a separate business or operated on a stand-alone basis.

Regionally, respondents in APAC most strongly disagreed (53%) compared with the overall results (37%), with the view that merging or separately managing an acquired business should result in different accounting guidance. Respondents in EMEA most strongly agreed (46%) compared with the overall results (32%), with the view that merging or separately managing an acquired business should result in different accounting guidance. See **Chart 41**.

Chart 41. Different Accounting for Merged or Separately Managed Acquisitions

There should be different accounting guidance for acquisitions managed separately on a go-forward basis versus acquisitions that are merged with a company's existing business units.
N = 368



Public Versus Private Company Accounting: Investors Want the Same Approach, But Not Amortization

Our work on this survey also yielded the finding that the majority of investors did not agree with the view that public company accounting for goodwill (i.e., impairment only) should be allowed to revert to amortization because it is allowed for private company accounting, even if that amortization accounting was coupled with impairment testing. Investors want the same accounting for public and private companies for goodwill, but that does not mean moving to the lower quality amortization solution as allowed for private companies. One respondent noted:

Public and private companies should be subject to the same accounting and disclosure requirements. Capital allocation between public and private companies should be on the basis of merit not misleading presentation of financial performance.

D. Disclosures

We asked a series of questions to gain investor perspectives on existing and potential disclosures.

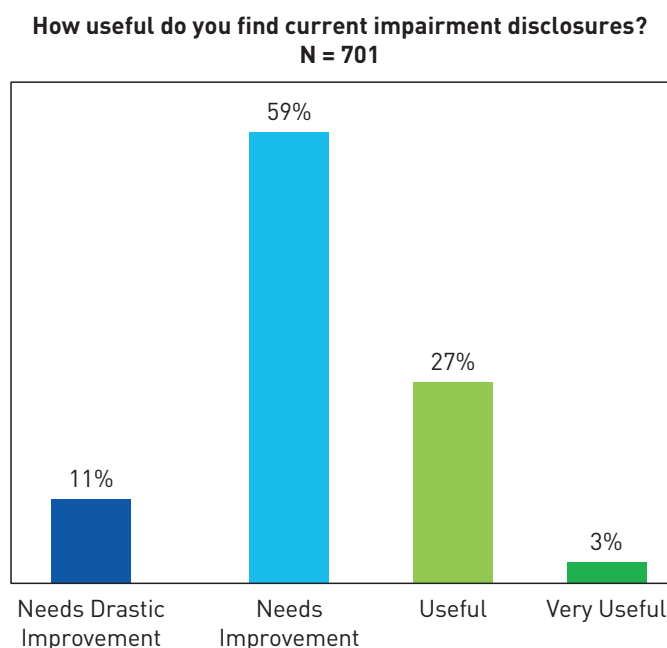
Views on Usefulness of Current Disclosures and the Path Forward

As we highlight in **Section II.A.1 (Desired Path Forward)**, we asked several questions about the usefulness of current disclosures and the need to improve disclosures before making changes to the accounting for goodwill.

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

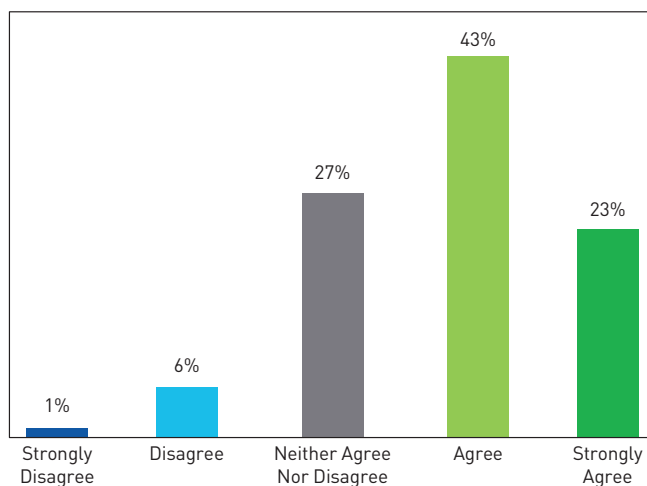


Improve Disclosures Before Making Any Changes in Impairment Accounting

When asked if improvement in disclosures should proceed a change from impairment to amortization (subsequent measurement) of goodwill, a majority (66%) agreed that improvements in disclosure should proceed a change to amortization, with only 7% disagreeing with that approach. Regionally, APAC and EMEA respondents had an even stronger view (82% and 94%, respectively) that disclosures should be improved before any changes in the subsequent measurement of goodwill. See **Chart 43**.

Chart 43. Improve Impairment Disclosures Before Changes in Subsequent Measurement of Goodwill

Disclosures should be improved before any changes to the subsequent measurement of goodwill.
N = 481



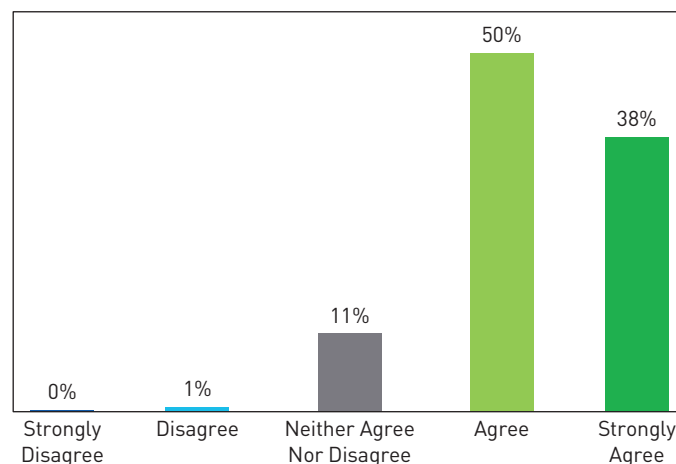
Disclosure Improvements Are Needed Regardless of Change in Accounting Model

We asked investors whether improvement in disclosures was needed regardless of whether a change was made in the accounting model. An overwhelming majority (88%) agreed that improvement in disclosures was necessary. Regionally, APAC and EMEA respondents had an even stronger view (94–97%) that disclosures need to improve regardless of a change in the accounting model. See **Chart 44**.

Overall, we found that investors were most supportive of the IASB’s approach of improving disclosures rather than the FASB’s approach of moving to amortization.

Chart 44. Improve Impairment Disclosures Regardless of Changes in Accounting for Goodwill

There should be an improvement in disclosures regardless of whether the accounting model for goodwill changes.
N = 470



Views on Areas of Impairment Disclosure Improvements

We asked our investor members to provide their perspectives on the nature of the needed disclosure improvements. The key areas of improvement needed follow.

Need More Information to Make Independent Assessments

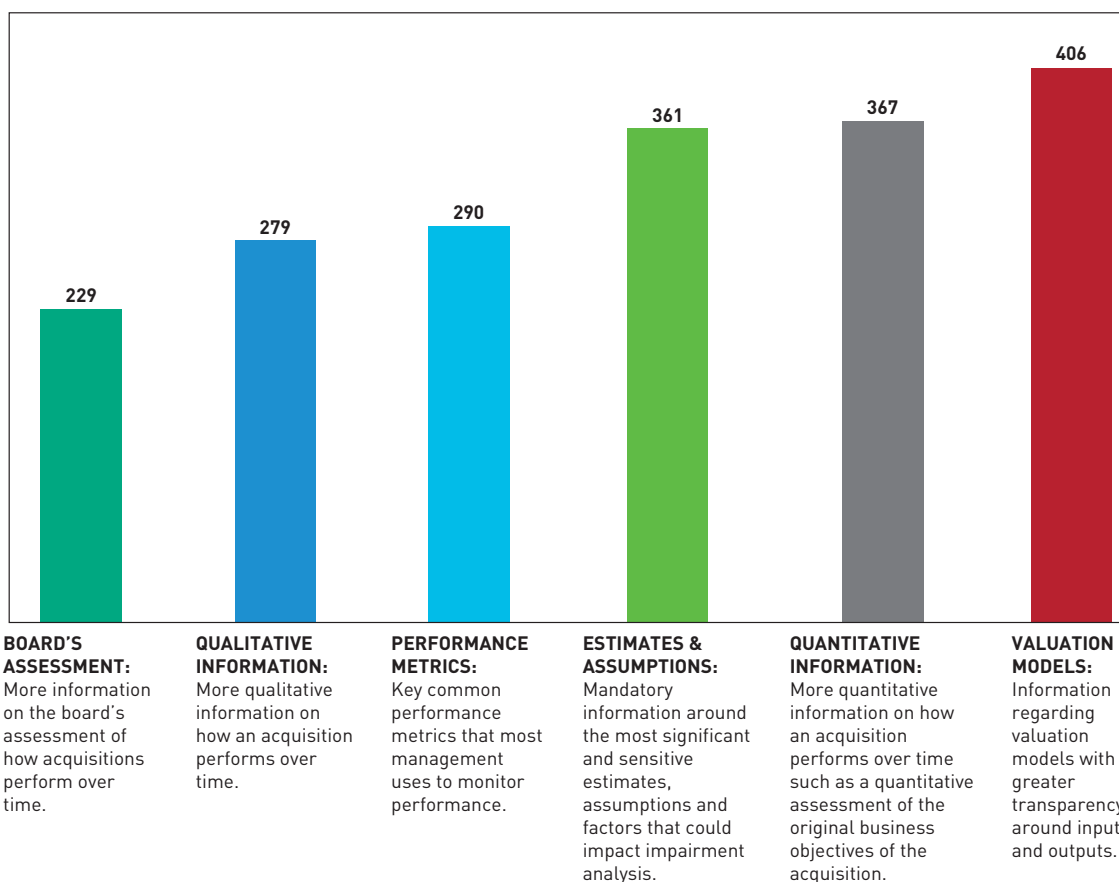
Valuation Models and Related Estimated and Assumptions: Investors want more information on the valuation models employed along with greater transparency on the related inputs and outputs. Hand in hand with this valuation model information, they want it to be mandatory that information regarding significant estimates and assumptions and their sensitivity to changes be provided.

Performance of Acquisitions: Investors made it clear that they want more quantitative information on how an acquisition performs, and they want disclosure of the key common performance metrics that management is using to monitor the performance of the acquisition. Qualitative information was lower on the priority list, likely because it is generally boilerplate.

Board's Assessment: Investors indicated that they want more information on the board's assessment of an acquisition. They also want hard quantitative metrics related to the impairment valuation model and the performance of the acquisition so they can evaluate the acquisition rather than solely obtain qualitative information and the management's or the board's opinion alone. See **Chart 45**.

Chart 45. Need for Disclosure Improvements That Facilitate Independent Assessment

Which areas of goodwill and impairment disclosures need significant improvements or additional mandatory disclosures? (Select all that apply)



Amortization Disclosure Improvements

Amortization = Improved Impairment Disclosures + New Amortization Disclosures

As we noted in **Section II.A.1 (Desired Path Forward)**, we asked our investor members about their preferences regarding the preferred amortization method or period should amortization be reinstated. We repeat these views along with their views on the disclosure of the useful life of goodwill. We conclude by combining this information according to the type of disclosures necessary in an amortization plus impairment model scenario.

Preferred Amortization Method or Period

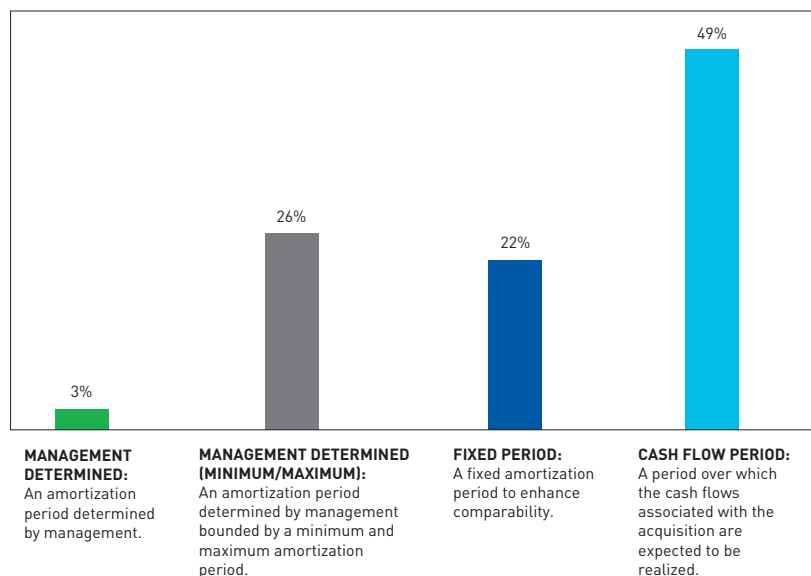
We asked our investor members what amortization period or method they would prefer. The noted the following:

- **Cash Flow–Based Amortization Period:** 49% of respondents agreed the amortization period should be the period over which the cash flows related to the acquisition are to be received.
- **Management–Determined (Minimum/Maximum) Period:** 26% of respondents preferred an amortization period determined by management with a minimum and maximum amortization period.
- **Fixed Amortization Period:** Only 22% agreed a fixed amortization period consistent for all companies, such as the 10-year period being considered by the FASB, was appropriate.
- **Solely Management–Determined Period:** Investors did not support an amortization period solely determined by management, with only 3% supporting such an option.

See **Chart 46** (which is a duplicate of **Chart 37**).

Chart 46. Amortization Method or Period

If amortization is reinstated, the amortization period should be: (select one)
N = 364



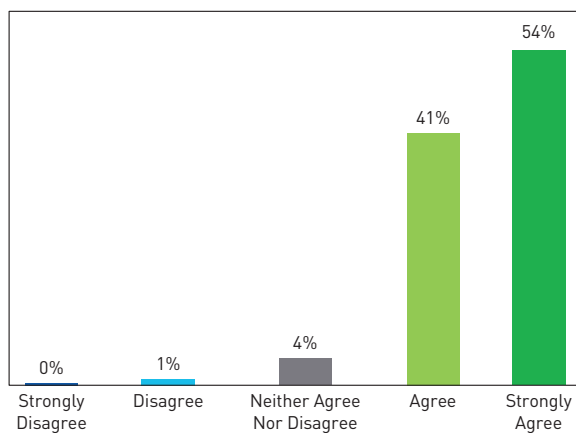
Disclosure of Useful Life

We asked whether additional disclosure was needed regarding the useful life of the goodwill. Specifically, we asked whether the useful life should be disclosed and whether the estimation of whether the useful life had an impact on initial recognition should be disclosed.

If amortization is reintroduced, investors (95%) believe that the method of determining the useful life should be disclosed (if a policy choice was permitted). See **Chart 47**.

Chart 47. Disclose Method of Useful Life Determination

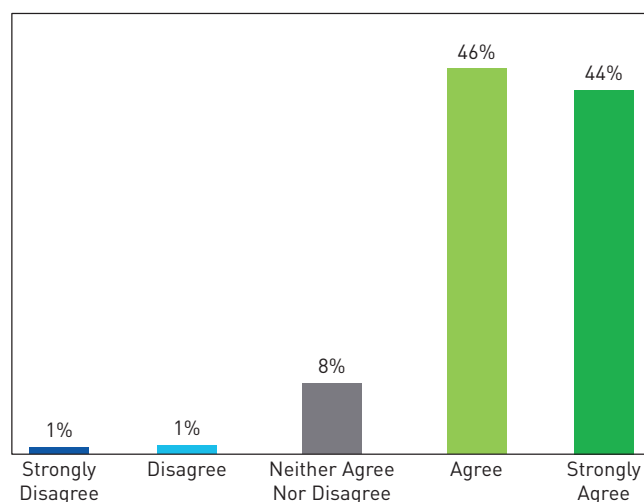
If amortization is reintroduced, how management determined the useful life (if a policy choice is permitted) would be a useful disclosure.
N = 482



How that useful life affects the initial recognition of goodwill balance is something investors (90%) also believe is a useful disclosure to make. See **Chart 48**.

Chart 48. Disclose Impact of Useful Life on Initial Recognition

If amortization is reintroduced, how useful life assessment impacts initial recognition of goodwill balance would be a useful disclosure.
N = 473



Amortization: Impairment Improvements + New Amortization Disclosures

Overall, our survey found that investors still want impairment tests, even if amortization is reinstated. So, the improvements in impairment disclosures noted previously are needed even if amortization is reinstated. The method or period selected for amortization will also drive and increase necessary disclosures. Investors nearly unanimously want disclosure of the useful life of the goodwill asset, should amortization be reinstated. This response revealed that they want disclosures regarding not just the useful life, but also how it was determined. Investors do not prefer a uniform fixed amortization period, say the 10 years being proposed by FASB. Such an approach would be an easy disclosure to make, but it would provide no decision-useful information. Investors said they would prefer an amortization method, and by association an amortization period, based on the cash flows of the acquisition. Their second preference is for a management-determined period with a minimum and maximum bound to the amortization period set by standard setters. These preferences will require not only the disclosure of the useful life, as they request, but also how it was determined. This will require substantial additional disclosure.

Investor Comments on Disclosures

Perhaps not surprisingly relative to the views expressed by respondents to the first question in the survey (see **Chart 1**), we received significant respondent comments related to disclosures. Several of the comments in **Box 12** include remarks relative to other topics herein (i.e., impairment, amortization) as well as a disclosure-related component to the comment. As such, we have included such comments here and in the respective area elsewhere in the document. Because they have relevance to the survey results in both places, we noted the respective section at the end of the comment. Because comments related to disclosures are so important to the overall message of the survey, we included virtually all comments that mention disclosures in **Box 12**, and we have categorized the comments, as best we could, by major disclosure topic.

Overall, we found that investors wanted disclosures regarding the nature, characteristics, and composition of goodwill balances so that they understand the origin of the goodwill, what it likely comprises, where it resides, and what the goodwill represents overall. Investors also provided comments seeking disclosure regarding post-acquisition performance of the business, likely so that they can make their own assessment of the success of the acquisition. This was followed by a significant number of comments in which investors noted that they want more disclosure about the impairment test that actually was performed, including key assumptions, methodologies, and sensitivity of the valuation. Some respondents also requested additional information on the nature of the impairments actually taken. Finally, a few interesting but ancillary comments were provided on disclosures. The comments are included in **Box 12**. Reading the comments closely, you will find that the IASB's approach on disclosures seems spot on and reflects the direction our respondents believe is the best way forward.

Box 12. Investor Comments on Disclosure

Nature, Characteristics, Composition, and Location of Goodwill

- *More disclosure around what exactly the goodwill is, how it has been calculated, tested, impaired and the assumptions behind that are key in my view. Also, we should have a measure of goodwill that is "control premium" if a company pays up to acquire another. Management needs to be held to account for whether or not it was worth paying that premium and this should be split out from more genuine intangibles like R&D or brands.*
- *Whether goodwill should be treated as a perpetual asset "depends." Hence, greater disclosure would be beneficial. [Initial Recognition]*
- *There should be a disclosure of book value with and without goodwill. [Initial Recognition]*

- *A lot depends on the nature of the goodwill. Brands tend not to diminish over time, but if goodwill is rising because of undisciplined purchase for exorbitant prices, that's where disclosure would help. [Initial Recognition]*
- *Transparency is the key issue. Accurate representation and disclosure is more important than whether or not goodwill is amortized.*
- *There needs to be significant disclosures to avoid this from being another lever for management to smooth earnings.*
- *Whether goodwill arose from an acquisition paid for in cash or in stock.*
- *Line item disclosure of each component of goodwill.*
- *History of goodwill accumulation and its sources – would be helpful for investors to compare with current state of the business.*
- *Disclosure regarding how consolidated goodwill is tied up in which cash generating unit.*
- *Goodwill should be broken down and much more granular with segments of specific intangible value.*
- *CEO comments/justification on goodwill that's exceeding 25% of net assets should be encouraged.*
- *Goodwill needs to be disaggregated into different sources of value. It is fine if these are management's estimates, but it would allow investors to at least judge the estimates for reasonableness. The biggest problem with goodwill is that the value of future growth is embedded into the acquisition price. This component of goodwill heavily skews return on capital and reinvestment estimates. Management should be required to either disaggregate goodwill or provide investors with its thoughts regarding valuation of the asset in order for investors to be able to judge the prudence of capital allocation.*
- *Provide reconciliation of changes in goodwill by drivers, period-to-period, and life to date.*
- *Many companies nowadays use M&A as a way to sustain the revenue growth or, more frequently, "outsource" the R&D that should have been done in-house and should have shown impact on P/L. However, by choosing M&A frequently, magically the impact of this external R&D disappears based current accounting rule, which makes the comparison less obvious. Smart investors obviously would adjust for this in their valuation framework. However, the limited disclosure makes the process more an art than a science.*
- *Goodwill disclosures should include the specific acquisitions it is related to, and detail tying the value of goodwill back to each acquisition.*
- *At large companies, it would be useful to know in which business unit the goodwill resides.*
- *Analysis of goodwill should clearly identify asset specific characteristics, measurement standards and assumptions, relevant industry history illustrating life/term issues. The framework and paradigm will vary.*

Metrics to Evaluate Post-Acquisition Performance

- *Goodwill needs to be assessed against original acquisition assumptions for at least 3 years following an acquisition and not commingled with existing business units. [Impairment]*
- *Disaggregate goodwill into different sources of value. Force management to make an estimate for the various components, allow investors to see how they are thinking about the deal.*
- *Successful acquisitions create value through time, therefore impairment is more appropriate. Conflicts of interest can arise with management, and auditors may not be best suited to make the valuation assessment. Better disclosure on integration and performance of the acquired business is a good start as it would enable the securities analyst to better form her/his own judgment. [Impairment]*
- *In terms of disclosure about how an asset is performing versus expectations upon acquisition, special attention needs to be paid to the measurement and evaluation metrics. With many measurement metrics, we see “cream puff” criteria. One thought is to require directors to compare the performance of the asset to the metrics used by the board to approve the acquisition.*
- *Disclose return on invested capital (ROIC) at time of acquisition and subsequently.*
- *Companies would choose to amortize goodwill. Then they would report non-GAAP results with goodwill amortization added back. Separately it would be interesting or valuable to create accounting standards for whether or not companies manage acquisitions separately or merge them into existing business units. That would in effect force companies to certify whether acquisitions were properly integrated. Many companies say they have integrated acquisitions but really have not, and we only find that out after management changes and the next team takes on the true integration work.*
- *Disclose known risks.*
- *Disclose specific remaining life for each significant acquisition making up the goodwill total.*
- *Capitalisation rate and long-term profit assumptions.*
- *Acquisitions of companies with intellectual property and brands should specifically allocate the purchase price to specific patents.*
- *When an acquisition has been made, the financial statements of the target need to be separately disclosed for a period of 3 years after acquisition.*
- *There need to be specific quantitative indicators concerning the value of goodwill.*
- *There seems to be a lot of freedom for companies to decide on impairment testing for CGUs. We have seen cases where restructurings of CGUs seem to be designed to avoid impairments by moving problematic units, which have been acquired, into a larger CGU. While management should have flexibility to restructure segments and CGUs, it would be really helpful to have disclosure requirements for the performance of acquired units. [Impairment.]*

- *Greater disclosure on how the fair value of material subsidiaries was calculated should be provided.*
- *Goodwill is non-cash item and is not tax deductible. Therefore, fundamental cash flow models will add back/normalize this amortization when building cash flow projection models. It would be much more helpful to have a more detailed breakdown of what kind of goodwill it is; therefore, it can be better monitored by the investment community and boards, which should help to have more timely write-downs. Goodwill is a generic “remainder” variable that is generated from the purchase price of an acquisition. The more material/sizable the acquisition, the greater the disclosure expected from the acquirer regarding this goodwill number. Furthermore, it would be very informative to understand the assumptions used by management for the purchase price and goodwill assumed. For instance, synergies should be made more explicit in order to justify the goodwill on the balance sheet going forward.*
- *Goodwill impairment has been a problem more in emerging markets and the assumptions are not transparent and changed as per suitability of the management. The balance sheet is bloated and distorts the leverage. Earnings of any acquisition is a better way to determine the value of the company.*
- *For God’s sake don’t go back to amortization. Investors just need disclosure about acquisition performance and the inputs used to value goodwill for impairment determination. [Amortization]*

Impairment Test Assumptions and Methods

- *Regardless of changes, greater disclosures of impairment and assessment of goodwill is needed. As is, it is currently too opaque.*
- *Current levels of disclosure of the basis for goodwill recognition and impairment is minimal. If goodwill is going to be capitalised then there should be reasonable disclosure over the aggregate assumptions underpinning it (e.g. long term profit generation and capitalisation rates.)*
- *Companies tend to avoid impairing goodwill since it makes management look bad (i.e., basically admitting that an acquisition was overpriced). There should be greater transparency into how the goodwill balance was evaluated for impairment, i.e. the valuation methods used and detailed disclosure into the inputs. It should not be an opaque “trust management and accountants” process because management will always try to avoid impairing goodwill and the accountants usually go along with it. [Impairment]*
- *The key issue is disclosure of goodwill assumptions so analyst can make appropriate adjustments.*
- *Increased disclosure on goodwill and intangibles, the measurement and testing of these assets would help to discern whether the asset is/has become a wasting asset or has retained the book value. The quality of the asset (and potential earnings on the asset could then be determined. Increased (and systemic) disclosure helps the analyst determine asset quality and future effects on the financial statements. [Initial Recognition]*

- *Disclosures around impairment testing sensitivity & assumptions are the most important area & where the greatest variance exists across corporate reporting.*
- *Disclose valuation method with inputs.*
- *The exact nature of the CGU the goodwill was apportioned to, and some basic sales/profit disclosures for that CGU plus a sensitivity analysis for the impairment testing assumptions.*
- *Disclose methodology for impairment testing.*
- *More details on what assumptions justify that goodwill amount so we can measure the success or failure. Goodwill impairments based on stock prices are inherently flawed.*
- *More detail on the impairment testing methodology.*
- *[Disclose when] third party assessment has been completed.*
- *Details about the impairment testing process.*
- *Annual independent tests of goodwill impairment testing needs to be disclosed – methodology and key assumptions.*
- *Independence of the goodwill impairment determinants.*
- *Disclose discount rate used in impairment test.*
- *Disclose the inputs to fair value determination.*
- *Financial assumptions used to value goodwill (cash flows, discount rate, etc.)*
- *Disclosure of the future cash flows used to determine impairment.*
- *Disclosure is needed for the cost of capital used to calculate the value of goodwill and impairment.*
- *Not enough disclosure as to the actual [impairment] process and should be done more often.*
- *How value and methods. What companies and transactions are peers. In 5 year stock performance chart in 10k companies should disclose what specific companies constitute peers and then we would be able to assess peer valuations overall as compares...helpful in assessing goodwill and what acquired company is worth.*

Nature of Impairment

- *Has been covered, but more disclosure is a must, as it is still a very opaque aspect. Whether they stick to amortisation or impairment, an investor should be able to understand the methodology followed.*
- *Narrative around why the impairment occurred would be useful as it would bring additional discipline to the capital allocation process. It would be interesting to see how many managements said they over-paid for a mediocre asset.*

- *What PART of goodwill is being impaired is key, and follows my commentary that goodwill should be disaggregated.*
- *The issue I am interested in, not yet covered here, is the non-GAAP adjustments management teams make to arrive at pro forma earnings. These adjustments add back amortization, and managements would likely add back goodwill, too, if that were amortized. Managements also tend to gloss over goodwill impairments where they presumably made a bad capital allocation decision in the past.*
- *Would be helpful to disclose historical impairment of the goodwill, and the underlying consideration. Would be also helpful to include scenario analysis (quantitatively) to layout the goodwill impairment's impact on financial statements.*

Other

- *Key considerations in determining value of goodwill, early indicators for review (potentially including levels) at which goodwill should be reassessed. In addition to initial recognition and subsequent impairment or amortization, one point could be to look at subsequent revaluation as well.*
- *I am all in favor of more (and more and more) disclosure, but no more rule changes! Accountants have got to stop moving the goal posts if their reports are to have any value. They should stop pretending to be analysts and/or economists. That's *our* job. There is no such thing as an economically "perfect" set of financial statements, but what we need from accountants are objective benchmarks – that are consistent across time – for investors as well as managers to evaluate. If this constant tinkering does not stop, GAAP will lose what little apparent value it has left, and companies will be free to create whatever bogus statistics they like and continue to mislead investors at will. [Path Forward]*

III. About the Survey

A random sample of 23,800 CFA® charterholders employed as research, investment, or quantitative analysts or portfolio managers were invited to participate in this electronic survey through three direct email invitations distributed from 5 November to 15 November 2020. The survey asked about the accounting for goodwill, and the related disclosures, and how these issues are affecting analysis and investment decision making. The survey also collected relevant demographic information.

Survey Demographics

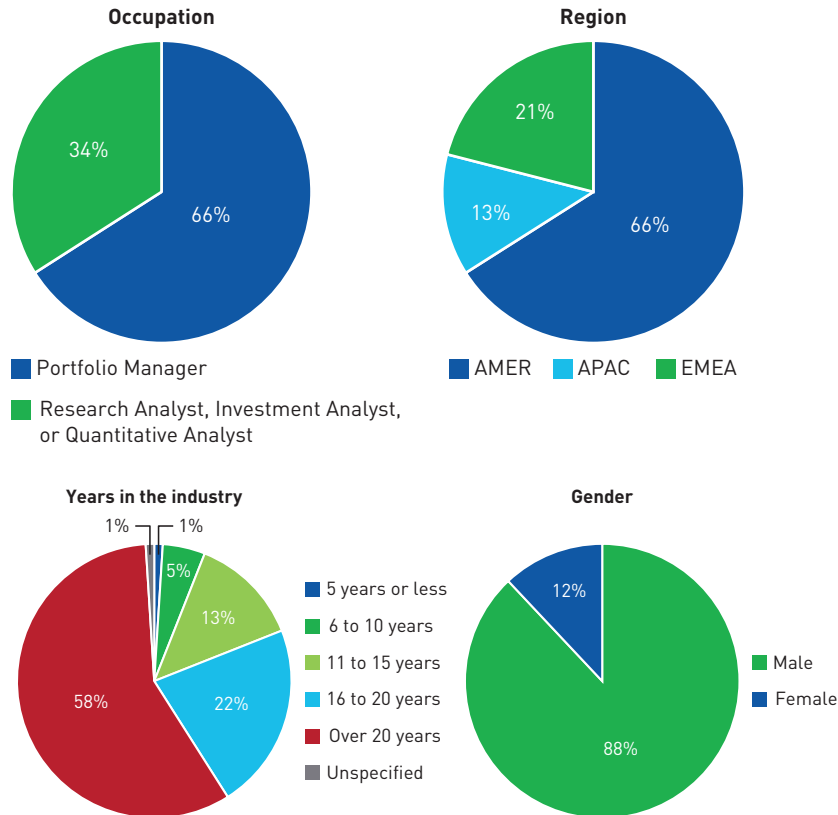
To provide respondents with the best survey experience, all respondents were asked the initial question in the body of the email regarding their preference regarding the best way forward as it relates to the accounting for goodwill accounting (see **Chart 1**). A total of 1,607 individuals completed the survey and yielded a useable response rate of 7%.

Demographic information on respondents by occupation, region, years in industry, and gender are shown in **Chart 49**.

Data Collection

To provide respondents with the best survey experience, they received only a subset of the complete questionnaire as respondents were branched into two subsets (branched series). A sample of this size has an overall margin of error of plus or minus 2.36% at a 95% confidence level and a branched series of questions ($N = \sim 803$) margin of error of plus or minus 4.19% at a 95% confidence level. This means that if the survey was repeated 100 times with different samples from the same population, 95 out of 100 samples would yield a result within plus or minus 4.19% (i.e., or 2.36% in the nonbranched questions) of each statistic reported in this study. For example, if an answer is offered by 50% of respondents, the results would range between a high of 54% and a low of 46% (i.e., or from a high of 52% to a low of 48% for nonbranched questions) for 95 out of 100 other samples from the same population.

Chart 49. Survey Demographics



Survey Sponsor and Collection Provider

The survey sponsor was CFA Institute, and the data collection provider was Market Intelligence and Business Analytics at CFA Institute. The survey respondent demographic data were found to be representative of the wider population of interest; therefore, the data were not weighted.

IV. Recommendations for Standard Setters and Regulators

As this paper has highlighted, the overarching recommendation for accounting standard setters and regulators is to improve disclosures before reverting to amortization. Following are the key recommendations offered in this paper:

- Seek a converged solution between IFRS and US GAAP.
- Make standard-setting decision-useful in the context of the size of goodwill balances.
- Prepare a proper cost-benefit analysis and demonstrate that any financial reporting change is an improvement in financial reporting for investors.
- Ensure that disclosure improvements include an ability to evaluate the transaction post-acquisition and, more specifically, include additional disclosures related to the following:
 - **Valuation Models:** Information on the valuation models should be employed along with greater transparency on the related inputs and outputs.
 - **Related Estimated and Assumptions:** Hand in hand with these valuation model disclosures, information about significant estimates and assumptions and their sensitivity to changes should be mandatory.
 - **Quantitative Information on Performance of Acquisitions:** More quantitative information should be provided about how an acquisition performs, and the key common performance metrics that management is using to monitor the performance of the acquisition should be disclosed.
 - **Qualitative Information on Performance of Acquisitions:** Qualitative information was lower on the priority list for investors—likely because such disclosures are generally boilerplate.
 - **Board's Assessment on Performance of Acquisition:** More information on the board's assessment of an acquisition should be provided.

As the survey responses revealed, investors want hard quantitative metrics related to the impairment valuation model and the performance of the acquisition. This information would enable investors to independently evaluate the acquisition rather than merely obtain qualitative information and the management's or board's opinion alone.

APPENDIX 1.

2019 FASB GOODWILL INVITATION TO COMMENT: CFA INSTITUTE COMMENT LETTER



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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 Institute¹ 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 premise³ 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'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%	2018	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%	2018	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 than 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 letters⁴ 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 goodwill⁵ 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 ails 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 own 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				S&P 500				S&P 500/All Public Companies				
# Companies	Goodwill	Equity	G/W Assets	# Companies	Goodwill	Equity	G/W Assets	# Companies	Goodwill	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%	9.23%
2017	6,947	\$ 5,416	\$17,678	\$96,413	30.64%	5.62%	499	\$ 3,048	\$ 7,756	\$34,170	39.30%	8.32%
2016	7,300	\$ 4,916	\$16,294	\$87,091	30.17%	5.64%	499	\$ 2,736	\$ 7,163	\$32,631	38.20%	8.38%
2015	7,517	\$ 4,049	\$14,899	\$71,976	27.18%	5.63%	497	\$ 2,442	\$ 6,903	\$31,035	35.38%	7.87%
2014	7,608	\$ 3,527	\$11,638	\$59,403	30.31%	5.94%	496	\$ 2,164	\$ 6,772	\$30,534	31.96%	7.09%
2013	7,812	\$ 3,342	\$11,568	\$57,866	28.89%	5.78%	494	\$ 2,075	\$ 6,734	\$29,403	30.81%	7.06%

All Public Companies with Goodwill				S&P 500 Companies with Goodwill				S&P 500/All Public Companies with Goodwill				
# Companies	Goodwill	Equity	G/W Assets	# Companies	Goodwill	Equity	G/W Assets	# Companies	Goodwill	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%
2017	3,239	\$ 5,416	\$13,981	\$73,925	38.74%	7.33%	442	\$ 3,048	\$ 7,119	\$32,563	42.82%	9.36%
2016	3,591	\$ 4,916	\$12,695	\$64,058	38.73%	7.67%	439	\$ 2,736	\$ 6,558	\$31,050	41.72%	8.31%
2015	3,585	\$ 4,049	\$10,461	\$50,206	38.71%	8.06%	438	\$ 2,442	\$ 6,322	\$29,525	38.63%	8.27%
2014	3,413	\$ 3,527	\$ 9,633	\$46,191	36.61%	7.64%	431	\$ 2,164	\$ 6,109	\$28,707	35.42%	7.54%
2013	3,352	\$ 3,342	\$ 9,628	\$45,057	34.71%	7.42%	431	\$ 2,075	\$ 6,109	\$27,686	33.97%	7.49%

All Public Companies without Goodwill				S&P 500 Companies without Goodwill				Difference (S&P 500/All Public Companies without Goodwill)			
# Companies	Goodwill	Equity	G/W Assets	# Companies	Goodwill	Equity	G/W Assets	# Companies	Goodwill	Equity	G/W Assets
2018	3,253	\$ -	\$ 3,846	\$22,826	-	-	55	\$ -	\$ 0.751	\$ 2,000	-
2017	3,608	\$ -	\$ 3,697	\$22,488	-	-	57	\$ -	\$ 0.637	\$ 1,607	-
2016	3,909	\$ -	\$ 3,601	\$23,033	-	-	60	\$ -	\$ 0.605	\$ 1,581	-
2015	4,132	\$ -	\$ 4,438	\$21,770	-	-	59	\$ -	\$ 0.581	\$ 1,510	-
2014	4,195	\$ -	\$ 2,005	\$13,212	-	-	65	\$ -	\$ 0.663	\$ 1,827	-
2013	4,460	\$ -	\$ 1,940	\$12,809	-	-	63	\$ -	\$ 0.625	\$ 1,717	-

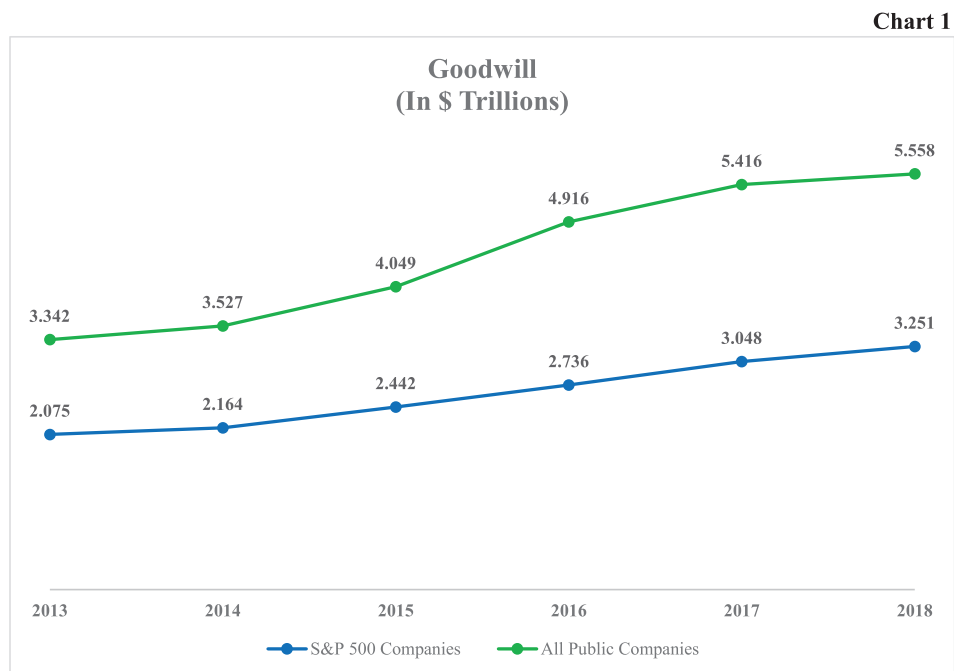
Note: This is the current S&P 500 looking backward over the period 2013 to 2018. The number of firms may be different than 500 because the S&P 500 count differs from 500 and companies move in and out of the index. This population of S&P 500 is sufficiently representative of the points made in this letter.

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

Source: Calcibench



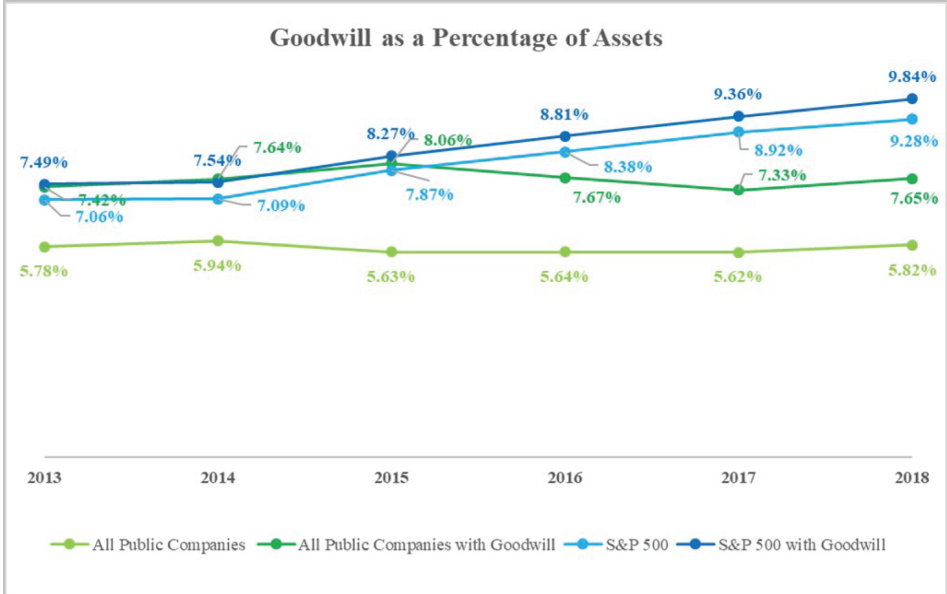
Charts 1, 2 and 3 illustrate the amount of goodwill, goodwill as a percentage of equity and goodwill as a percentage of assets, respectively, over the period from 2013 to 2018 as shown in Table 1.



Source: Calcbench



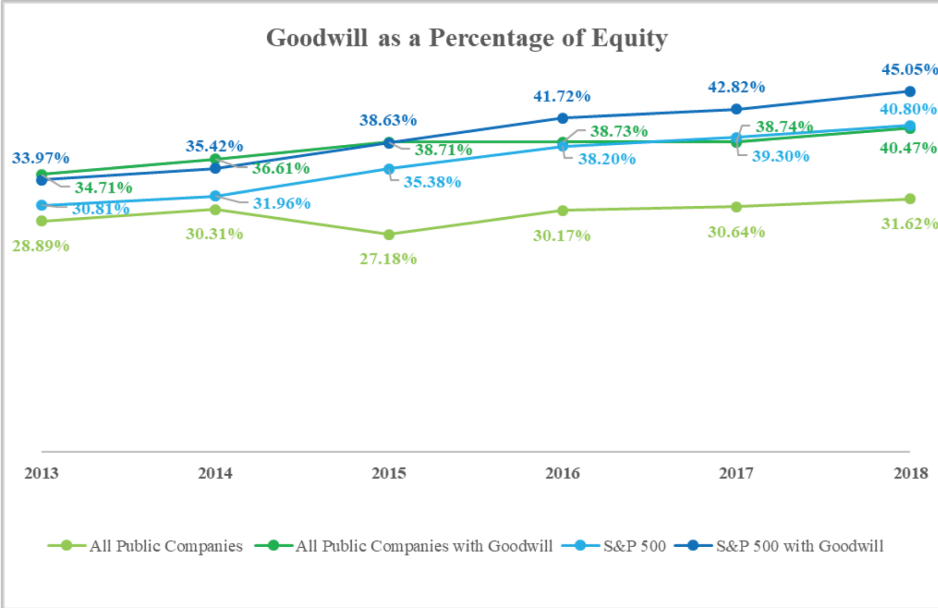
Chart 2



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
		<u>\$1,607,480,300,000</u>

***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.

The Real Issue:

Delayed Recognition of Impairment & Improvements Needed in Impairment Testing

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^2 s 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 research⁷ 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

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
Wills 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.	RSQ	\$11,400,100,000	\$1,037,600,000	10.99
Xerox Holdings Corp	XXR	\$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

Appendix B

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	GPV	\$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	SYU	\$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)
		<u>\$996,732,815,000</u>	<u>\$632,836,166,000</u>	<u>(\$363,896,649,000)</u>

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

Appendix C

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.	RSRG	\$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	GNP	\$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	SYU	\$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	

APPENDIX 2.

2020 IASB GOODWILL DISCUSSION PAPER: CFA INSTITUTE COMMENT LETTER



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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 Institute¹ 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.



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. **Further, 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



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.*


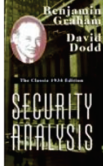
Thus, we believe that the threshold at which disclosure would be required should be set at a lower level of management than the CODM – reporting unit or CGU.

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.

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.

FINANCIAL INFORMATION: PRIOR TO SECURITIES ACTS THE STATUS & THE NARRATIVE	
DEFENSE OF STATUS QUO	INVESTORS DETRIMENT
<p>J.P. Morgan famously lamented the coming of that day “when all business will have to be done with glass pockets.”</p>  <p>J. PIERPONT MORGAN</p>	<p>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.</p>  <p>BENJAMIN GRAHAM</p>

- 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



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**



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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 Institute¹ 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 premise³ 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%	2018	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%	2018	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 than 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 letters⁴ 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 goodwill⁵ 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 ails 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 own 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							S&P 500							S&P 500/All Public Companies						
Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets	Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets	Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets
2018	6,449	\$ 5,558	\$ 17,580	\$ 95,446	31.62%	5.82%	2018	409	\$ 3,251	\$ 7,968	\$ 35,037	40.80%	9.28%	2018	14%	\$ 58%	\$ 45%	\$ 37%	129%	159%
2017	6,947	\$ 5,416	\$ 17,678	\$ 96,413	30.64%	5.62%	2017	409	\$ 3,048	\$ 7,756	\$ 34,170	39.30%	8.92%	2017	13%	56%	44%	35%	128%	158%
2016	7,300	\$ 4,916	\$ 16,204	\$ 87,091	30.17%	5.66%	2016	409	\$ 2,736	\$ 7,163	\$ 32,631	38.20%	8.38%	2016	13%	56%	44%	37%	127%	148%
2015	7,517	\$ 4,049	\$ 14,899	\$ 71,976	27.18%	5.63%	2015	407	\$ 2,442	\$ 6,903	\$ 31,035	35.38%	7.87%	2015	13%	60%	46%	43%	130%	140%
2014	7,608	\$ 3,527	\$ 11,638	\$ 59,403	30.31%	5.84%	2014	406	\$ 2,164	\$ 6,772	\$ 30,534	31.96%	7.09%	2014	7%	61%	38%	51%	105%	119%
2013	7,812	\$ 3,342	\$ 11,568	\$ 57,866	28.89%	5.78%	2013	494	\$ 2,075	\$ 6,734	\$ 29,403	30.81%	7.06%	2013	6%	62%	38%	51%	107%	122%
All Public Companies with Goodwill							S&P 500 Companies with Goodwill							S&P 500/All Public Companies with Goodwill						
Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets	Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets	Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets
2018	3,196	\$ 3,558	\$ 13,734	\$ 72,620	40.47%	7.65%	2018	444	\$ 3,251	\$ 7,217	\$ 33,037	45.05%	9.84%	2018	14%	58%	33%	45%	111%	129%
2017	3,539	\$ 3,416	\$ 13,981	\$ 73,925	38.74%	7.33%	2017	442	\$ 3,048	\$ 7,119	\$ 32,563	42.82%	9.36%	2017	13%	56%	31%	44%	111%	128%
2016	3,391	\$ 4,916	\$ 12,095	\$ 64,058	38.73%	7.67%	2016	439	\$ 2,736	\$ 6,558	\$ 31,050	41.72%	8.83%	2016	13%	56%	32%	48%	108%	115%
2015	3,385	\$ 4,049	\$ 10,461	\$ 50,206	38.71%	8.06%	2015	438	\$ 2,442	\$ 6,322	\$ 29,525	38.63%	8.27%	2015	13%	60%	30%	59%	100%	103%
2014	3,413	\$ 3,327	\$ 9,633	\$ 46,191	36.61%	7.64%	2014	431	\$ 2,164	\$ 6,109	\$ 28,707	35.42%	7.54%	2014	13%	61%	33%	63%	97%	99%
2013	3,352	\$ 3,342	\$ 9,628	\$ 45,057	34.71%	7.42%	2013	431	\$ 2,075	\$ 6,109	\$ 27,686	33.97%	7.49%	2013	13%	62%	33%	61%	98%	101%
Difference (All Public Companies without Goodwill)							Difference (S&P 500 Companies without Goodwill)							Difference (S&P 500/All Public Companies without Goodwill)						
Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets	Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets	Year	# Companies	Goodwill	Equity	Assets	GW/Equity	GW/Assets
2018	3,253	\$ -	\$ 3,846	\$ 22,826	-	-	2018	55	\$ -	\$ 0,751	\$ 2,000	-	-	2018	2%	-	20%	9%	-	-
2017	3,608	\$ -	\$ 3,697	\$ 22,488	-	-	2017	57	\$ -	\$ 0,637	\$ 1,607	-	-	2017	2%	-	17%	7%	-	-
2016	3,909	\$ -	\$ 3,601	\$ 23,033	-	-	2016	60	\$ -	\$ 0,605	\$ 1,581	-	-	2016	2%	-	17%	7%	-	-
2015	4,132	\$ -	\$ 4,438	\$ 21,770	-	-	2015	59	\$ -	\$ 0,581	\$ 1,510	-	-	2015	1%	-	13%	7%	-	-
2014	4,195	\$ -	\$ 2,005	\$ 13,212	-	-	2014	65	\$ -	\$ 0,663	\$ 1,827	-	-	2014	2%	-	33%	14%	-	-
2013	4,460	\$ -	\$ 1,940	\$ 12,809	-	-	2013	63	\$ -	\$ 0,625	\$ 1,717	-	-	2013	1%	-	32%	13%	-	-

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.

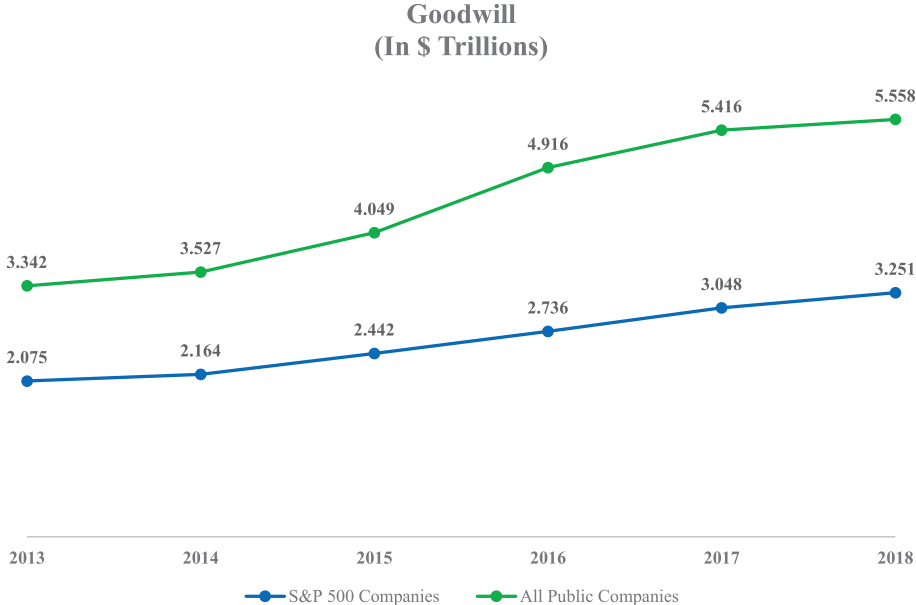
Note: Two numbers (one in 2014 and one in 2015) were adjusted because of data errors (currency & tagging) made by reporting companies.

Source: Calcibench



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.

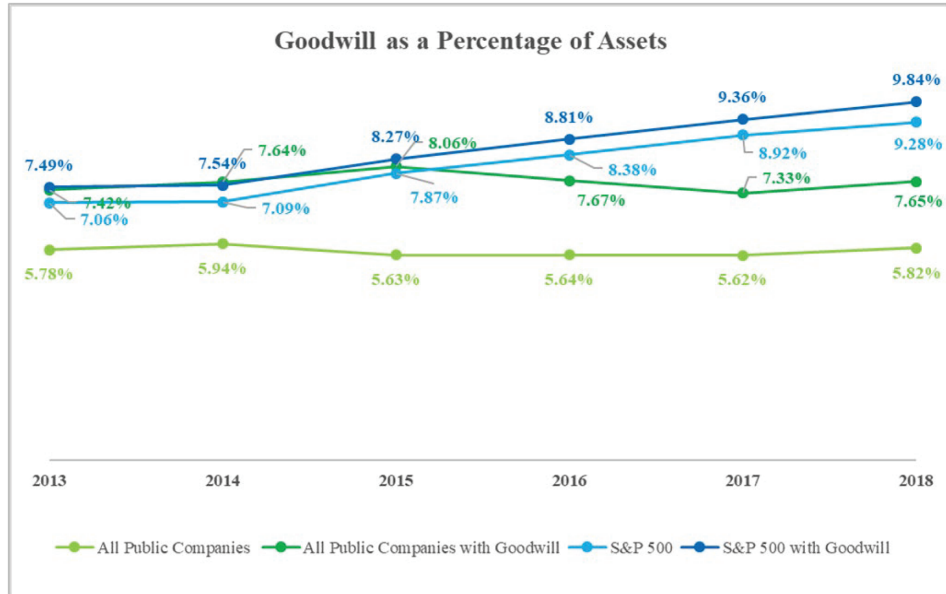
Chart 1



Source: Calcbench



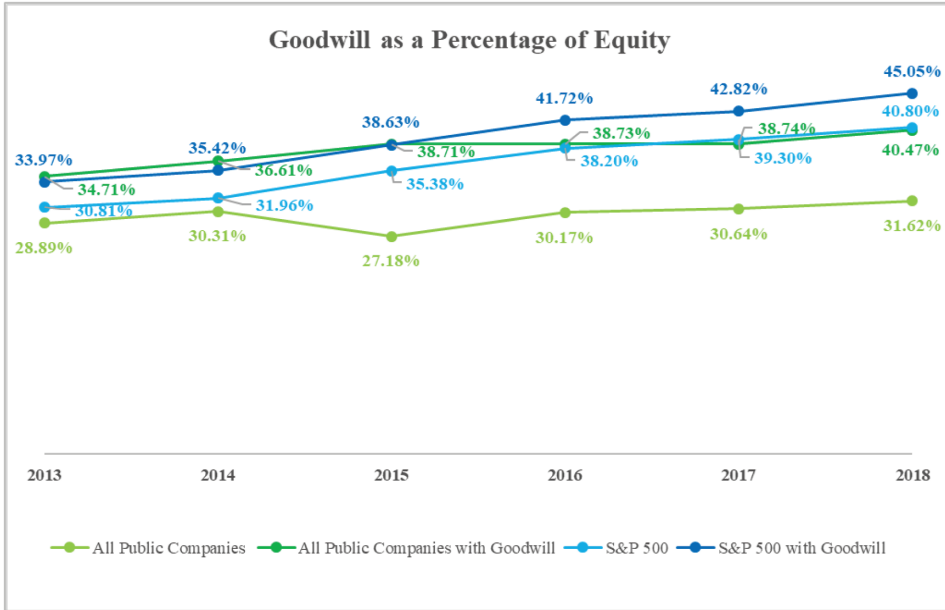
Chart 2



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)
Moody's 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	
Medonalds 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.

The Real Issue:

Delayed Recognition of Impairment & Improvements Needed in Impairment Testing

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^2 s 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 research⁷ 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.	RSR	\$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

Appendix B

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	GNP	\$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	SYO	\$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)

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

Appendix C

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	
Unitehealth 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.	RSR	\$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)	\$4518,000,000	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	VERSN	\$52,527,000	(\$1,385,474,000)	(\$1,438,001,000)	\$582,489,000	2.47	
Sysco Corp	SYYS	\$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.	VERSK	\$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	

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