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September 17, 2019

Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116,  
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United States of America

**Comments on the Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill***

To the Board Members:

The Japanese Institute of Certified Public Accountants (“we” and “our”) appreciates the continued efforts of the Financial Accounting Standards Board on this project, and welcomes the opportunity to comment on the Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (“ITC”).

Please find below our comments to the questions raised in the ITC.

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

The basis for conclusions in FASB Statement 141(R) describes some of the main components of goodwill, which are also referred to in the ITC as (a) fair value of the expected synergies and other benefits from combining the entities’ net assets and businesses, (b) fair value of the “going concern” element which is the ability of the established business to earn a higher rate of return than if the collection of net assets were acquired separately, and (c) fair values of other net assets that had not been recognized by the acquired entity. We recognize through a number of business combination transactions that goodwill is represented by such components and we don’t have any

arguments with the Board's view on this matter.

At the same time, given that goodwill is determined as the excess of consideration transferred over the fair value of identifiable assets and liabilities received in a business acquisition, we understand that main components of goodwill would be different among business combination transactions. In some cases, goodwill might even end up including a component of "overpayment" made by an acquirer.

Furthermore, we recognize that goodwill amount represents the acquisition-date value of synergies, excess earning power, and other benefits from combining the entities, which generally decreases over time after the acquisition. For example, it is our understanding that excess earning power generally decreases over time due to competition among entities. Just like in the case of excess earning power, we believe that many of the goodwill components actually have the feature of decreasing in their value over time.

Although the value of goodwill may remain constant or even increase when it is combined with goodwill internally generated through business activities after the acquisition, we still believe the acquisition-date goodwill amount would decrease, regardless.

2. Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits.

**Comment:**

Impairment test of goodwill is a procedure that largely involves management's estimate, including the preparation of a cash flow projection arising from a reporting unit to which goodwill is allocated. Accounting estimate is one of the matters that requires significant auditor attention, and impairment test of goodwill is certainly at the top of the list.

When comparing an impairment-only model to an amortization model combined with an impairment test, we believe a greater audit risk resides in the impairment testing conducted under the impairment-only model. This is because, under the impairment-only model, a decrease in the value of goodwill is recognized in the financial statements only by the means of impairment testing, which means that the result of an accounting estimate made by management may significantly affect the financial statements. Moreover, as goodwill is not amortized under the impairment-only model, the period required to perform an impairment testing may last longer. When a certain amount of time passes after the acquisition, we generally think that areas requiring estimates would increase for the purpose of goodwill impairment testing due to integration or changes in business lines.

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

**Comment:**

We support goodwill amortization with impairment testing.

As we understand that the value of goodwill recognized at the date of acquisition will decrease over a certain period after the business combination transaction, the decrease in value should be captured in the financial statements through the amortization process. There is a structural deficiency in the existing goodwill impairment model, provided that internally-generated goodwill arising after the acquisition may be able to shield impairments of originally-acquired goodwill. In other words, the existing goodwill impairment model by itself cannot solve the issue of recognizing internally-generated goodwill. This is another reason why we support goodwill amortization, because it will contribute much to solving the structural deficiency issue.

Speaking of audit risks commented at Question 2, we recognize that the audit risk would become much lower in the amortization model combined with an impairment test as compared with the impairment-only model.

4. If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you did not select certain characteristics.

- a. A default period
- b. A cap (or maximum) on the amortization period
- c. A floor (or minimum) on the amortization period
- d. Justification of an alternative amortization period other than a default period
- e. Amortization based on the useful life of the primary identifiable asset acquired
- f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
- g. Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

**Comment:**

We recommend the requirement for amortization period incorporates both of the following characteristics:

(1) The amortization period is determined based on management's reasonable estimate (option

(g)).

(2) A cap (or maximum) on the amortization period is set out in the standard (option (b)).

Under Japanese GAAP, goodwill must be amortized over 20 years or shorter, which represents the period over which the benefits of an acquisition are expected to be realized. Thus, it is the common practice in Japan under which preparers focus on providing management's estimate for the amortization period whereas auditors focus on assessing the reasonableness of the amortization period.

We recognize that main components of goodwill are different among business combination transactions. Accordingly, we believe the period until the value of goodwill becomes zero is also different among business combination transactions, depending on what kind of main components are included in goodwill and how the value that is supposed to be embedded in goodwill can be realized by the acquirer. That being said, we recommend that the amortization period should be determined based on management's judgment for each business combination transaction rather than setting a default period for the goodwill amortization.

When it is required to determine the amortization period based on management's reasonable estimate, we suggest a guidance be provided in the standard which specifies items to be considered by management in making such estimates, thereby reducing risks to some extent, which are associated with uncertainty that arises from accounting estimates. We believe such guidance would also be useful to auditors, who can refer to the guidance in determining the reasonableness of the management's estimate.

5. Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period? Please indicate yes or no and explain.

**Comment:**

We believe that a decrease in the value of the acquisition-date goodwill should be recognized in the financial statements by adopting the amortization model combined with an impairment test. Our view will not be affected by the amortization method or the amortization period.

9. Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually? Please explain why in your response.

**Comment:**

We understand that the purpose of requiring an entity to conduct the annual impairment test is to avoid delayed recognition of impairment losses, which could possibly result from not amortizing

goodwill. Hence, under the impairment-only model, it is essential to include the requirement to assess goodwill at least annually. That said, the discussion about whether or not to remove the requirement to assess goodwill for impairment at least annually should be made together with the discussion about implementing the amortization model combined with an impairment test.

10. Relative to the current impairment model, how much do you support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)? Please explain why in your response.

**Comment:**

One of our concerns under the current impairment model is that the requirement allows internally-generated goodwill arising in a reporting unit after the acquisition date to shield goodwill impairments within the same reporting unit. Therefore, we do not support the idea of testing goodwill at a higher level than the reporting unit, because it will only make the matter worse.

12. The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering “yes” or “no” to the questions in the table below. Please explain your response.

	<i>Do You Support the Indicated Model? Yes/No</i>	<i>Do You Support Requiring an Impairment Assessment Only upon a Triggering Event? Yes/No</i>	<i>Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit? Yes/No</i>
<i>Impairment Only</i>			
<i>Amortization with impairment</i>			

<i>Amortization Only</i>		<i>Not applicable</i>	<i>Not applicable</i>
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**Comment:**

Please see our comments to Question 3, 9 and 10 summarized in the following table:

	<i>Do You Support the Indicated Model? Yes/No</i>	<i>Do You Support Requiring an Impairment Assessment Only upon a Triggering Event? Yes/No</i>	<i>Do You Support Allowing Testing at the Entity Level or a Level Other Than the Reporting Unit? Yes/No</i>
<i>Impairment Only</i>	<i>(No)</i>	<i>(No)</i>	<i>(No)</i>
<i>Amortization with impairment</i>	<i>(Yes)</i>	<i>(Yes)</i>	<i>(No)</i>
<i>Amortization Only</i>	<i>(No)</i>	<i>Not applicable</i>	<i>Not applicable</i>

26. To what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.

**Comment:**

We suggest that the accounting requirement for goodwill should be aligned between PBEs reporting under US GAAP and PBEs reporting under IFRS to enhance the global comparability of financial information.

Yours faithfully,

Takako Fujimoto

Executive Board Member — Business Accounting Standards and Practice/Corporate  
Disclosure

The Japanese Institute of Certified Public Accountants