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"Survey on Accounting for Goodwill"

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Abstract

This study aims to respond to the global controversy surrounding “whether impairment ought also to be performed in the regular amortization of (acquired) goodwill, or should only be treated with impairment without regular amortization” and to deepen our understanding of the views of users and preparers of financial statements. The study uses a questionnaire survey targeting companies that prepare financial statements and analysts that use financial statements, and thus contributes to resolving the controversy. As pioneering efforts to investigate the awareness of preparers surrounding accounting for goodwill after an acquisition, prior investigations by the Japan Business Federation (Keidanren) and the Accounting Standards Board of Japan (ASBJ) targeted only a small number of companies. In addition, a survey was conducted by the ASBJ to investigate user awareness using direct interviews with a small number of analysts. Therefore, to deepen the understanding of preparer and user awareness, we conducted a survey that included additional questions and options not dealt with in the prior studies. Moreover, we expanded the survey targets to 1,379 companies of the Keidanren (264 effective responses: 19.1%), 1,339 listed companies not affiliated with the Keidanren (185 effective responses, 13.5%), and 673 analysts (130 effective responses: 19.3%).

The results of this survey clarified several issues. First, with regards to whether “impairment only (non-amortization)” or “regular amortization + impairment” is preferred, approximately 70% of preparers answered that “regular amortization + impairment” is more desirable. The same trend was confirmed even when the responses were split into “Keidanren members/non-members” and “manufacturing/non-manufacturing” subsamples. For users, approximately 60% responded that “regular amortization + impairment” was preferable. Next, when asked about the reasons for their support for “impairment only (non-amortization)” or “regular amortization + impairment,” both preparers and users responded that “performing the appropriate impairment test eliminates the need for regular amortization” was the most powerful reason for the first option. For the second option, both preparers and users stated the most compelling reason was “to make it correspond to profit through an appropriate allocation period (investment recovery calculation).” However, users showed similar support for “consistency with accounting for other depreciable assets.” In addition, this survey

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asks whether regulating the goodwill amortization period is appropriate, what a desirable amortization period would be, whether the "impairment only (non-amortized)/regular amortization + impairment" options are appropriate, other alternative methods of accounting for goodwill, the nature of goodwill as an asset, and the relationship between goodwill accounting and M&A decision making. Additionally, it asks users whether they add goodwill amortization expense back to revenue and if they deduct the value of goodwill from net assets when analyzing securities.

[Keywords] goodwill, regular amortization, impairment, questionnaire, Keidanren, Analysts Association

"Survey on Accounting for Goodwill"[4]

I Survey Goal and Contents

I-1. The Problem

Several issues have been discussed in business and academia concerning accounting for goodwill.[5] Among these, there is a deep conflict of opinion among various groups on the question of whether "goodwill ought to be regularly amortized" (strictly speaking, should impairment be performed in addition to regular amortization), or "ought we to handle only impairment, without regular amortization?" resulting in a global controversy.[6]

If we look to accounting standards, U.S. accounting standards (U.S. GAAP [used for SEC reporting and set by the Financial Accounting Standards Board] and international accounting standards [IFRS (International Financial Reporting Standards) set by the International Accounting Standards Board]), require only impairment (an impairment test) for goodwill after an acquisition, and subsequent regular amortization is not allowed. On the other hand, Japanese standards require regular goodwill amortization. Because "regular amortization of goodwill" in the Japanese version of the international accounting standards, "Amended International Accounting Standards," is cited as an important amendment to IFRS (ASBJ,[7] 2015a, b), we can see that regular amortization of goodwill continues to be emphasized in Japan.

There remain many unresolved issues regarding whether goodwill should be regularly amortized,[8] including differences in the recognition of the facts underlying these two perspectives. Therefore, to clarify "what preparers and users of financial statements think about the accounting for goodwill" and address this controversy, a survey investigation entitled "Survey into the Accounting for Goodwill" was conducted, targeting both preparers and users of financial statements.[9]

Prior to this survey, the Japanese Business Federation (Keidanren) conducted a study on this issue

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[4] This study was conducted as part of the Grant-in-Aid for Scientific Research Program ("Resolution of the international debate over theoretical and institutional issues surrounding the purchase of goodwill"), Study Topic Number; 17H02581, Study Representative: Tokuga Yoshihiro. The survey members included Masaki Yoneyama (Professor, the University of Tokyo) and Yuko Katsuo (Professor, Gakushuin University). Valuable insight was received from Prof. Yoneyama and Prof. Katsuo, as well as everyone who participated in the Scientific Research Program. We wish to express our gratitude. However, three people wrote this paper, Tokuga, Miyauchi, and Yamashita, and the errors or mistakes in it are our responsibility.

[5] Here, in principle, this study does not address self-constructed goodwill; rather, it discusses only acquired (purchased) goodwill. In addition, this survey assumes "positive" goodwill; negative goodwill lies outside the scope of this work. However, negative goodwill is also an important topic of discussion in accounting for goodwill.

[6] In addition, in this survey, the accounting treatment requiring impairment in addition to the performance of regular goodwill amortization is simply taken as "regular amortization + impairment," and the accounting treatment requiring only impairment, without regular amortization, is described as "impairment only (non-amortization)."

[7] In this paper, we use the abbreviation ASBJ for the Accounting Standards Board of Japan.

[8] Here, we assume that impairment is performed, even when regular amortization of goodwill is conducted.

[9] In the actual survey, responses were requested from preparers of financial statements (companies) through a web form or a postal questionnaire (for some companies) (postal survey), and responses were sought from users of financial statements (analysts) via web form.

(Keidanren, 2017; the survey by Keidanren is referred to as the Keidanren survey[10]), as did the Accounting Standards Board of Japan (ASBJ) (ASBJ, 2015c and 2017; referred to as the ASBJ survey)[11]. Although these previous surveys were positioned as pioneering fact-finding surveys that investigated companies' attitudes toward accounting for goodwill following an acquisition, because some of the issues of concern differ from those in this study, their scope was limited as they targeted only a small number of companies and analysts. Therefore, in this study, we implemented a survey of the opinions of a wider range of preparers and users of financial statements on accounting for goodwill following an acquisition. In addition, this survey includes questions and choices not found in previous studies to permit a further analysis of accounting for goodwill from an academic perspective.

The structure of Section **I** is as follows. In Section **I－2**, we summarize the prior surveys related to this study. Since this study consists of a survey based on the prior surveys by Keidanren and the ASBJ, we first summarize these surveys and describe this survey's positioning. Section **I－3** outlines the contents of this survey and explains its aims. Note that the details of this survey (targets and survey methods) are described in Sections **II** and **III**.

I-2. Outline of Prior Surveys and the Positioning of our Survey

As described above, the Keidanren conducted a survey on accounting for goodwill following an acquisition. Because that survey is directly related to this study, we clarify the positioning of our survey by summarizing the contents of this previous survey. In addition, the ASBJ (2015c) also conducted a survey (ASBJ Survey 1) that is closely related to ours, as it is a questionnaire survey related to accounting for goodwill after an acquisition. The ASBJ survey differs from our survey and that conducted by the Keidanren because it does not deal with the question of whether regular amortization of goodwill is appropriate; however, the questions in this survey are established with reference to the contents of ASBJ Survey 1. In addition, the ASBJ also published a summary of interviews conducted with analysts, entitled "Analyst opinions on financial information surrounding goodwill" (ASBJ, 2017, referred to as ASBJ Survey 2). We therefore present an outline of both ASBJ surveys and describe their relationship to this study. Below, we introduce and examine these previous surveys in the following order: Keidanren, ASBJ Survey 1, and ASBJ Survey 2.[12]

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[10] The Keidanren survey will be discussed later. It should be noted that although the Keidanren survey reported very interesting results concerning how respondent companies think about accounting for goodwill (the necessity of regular amortization and the characteristics of goodwill as an asset, etc.), no analysis was performed that considered the companies' characteristics. While this paper reports an outline of the response results, it does not aim to report a detailed analysis of company characteristics. However, a detailed analysis considering the response results and company characteristics is planned.

[11] Although not addressed in this paper, the ASBJ also published "A Quantitative Survey on Goodwill and Impairment" (ASBJ, 2016) as Research Paper Number 2. In addition, together with the European Financial Reporting Advisory Group (EFRAG) and the Accounting Standards Setting Body (OIC), the ASBJ also published the discussion paper, "Should Goodwill Still Not Be Amortised? Accounting and Disclosure for Goodwill" (ASBJ et al., 2014).

[12] Note that although ASBJ Surveys 1 and 2 were also published in English, this paper refers to the Japanese-language version of the research papers. Below, we arrange these prior surveys premised on the Japanese versions.

The Keidanren Survey

The Keidanren survey investigated the opinions of Japanese companies regarding regular amortization and non-amortization in accounting for goodwill following an acquisition. The survey chose 58 companies as targets, including not only companies that applied Japanese standards, but also companies that applied U.S. standards and companies that applied IFRS (including companies planning to apply IFRS). They received responses from 31 of these companies (a response rate of 53.4%).

Although the specific contents of the Keidanren survey are not disclosed, the survey investigated (1) supported methods of accounting (choice of "Amortization + Impairment" and "Impairment only"), (2) characteristics of goodwill, (3) reasons for supporting "amortization + impairment" (or impairment only) to handle goodwill following a merger, (4) actual conditions related to estimating the amortization period for goodwill, and (5) requests related to improving the impairment test, among other aspects.

According to the results (see Table 1-1), the survey found that 94% of responding companies supported "amortization + impairment," including companies that apply IFRS or U.S. standards, in which goodwill is not amortized. Moreover, this survey reported differences in how the characteristics of goodwill are interpreted as an asset by companies supporting "amortization + impairment" and companies supporting "non-amortization," as well as in the various arguments for their support of the respective accounting treatments.

The Keidanren survey is an important survey in that it directly seeks companies' thoughts on accounting for goodwill following an acquisition. Although the number of responding companies was limited, this survey revealed that many companies that apply accounting standards that do not include amortization of goodwill also supported regular goodwill amortization (hoping to readopt amortization), which is a highly interesting result.

However, the Keidanren survey targeted the members of the Sub-committee on Corporate Accounting, and the breakdown of recipient companies (responding companies) included 26 manufacturing companies (15 companies), 16 finance companies (10 companies), and 16 companies in other industries (6 companies), which reveals a bias in the target companies' industries. Considering this point, it is difficult to broadly and generally apply and interpret this survey's results.

In addition, many of the answers in the Keidanren survey are limited to a qualitative introduction,[13] and quantitative analysis was not performed. Whether there is a systematic difference between companies that support amortization and those that support non-amortization, why that difference exists, and so on, are important points of discussion (in addition to their application to statistical analysis) that would benefit from a detailed investigation from both the academic and policy

[13] However, this cannot necessarily be said to be a problem with the prior study because the contents of the results of the introduced survey are simple choices, and it is difficult to classify the answers simply.

perspectives. Considering the above limitations, we implement an independent survey while also considering the results of the Keidanren survey.

ASBJ Survey 1

Next, we outline the contents of ASBJ Survey 1 that relate to our survey. ASBJ Survey 1 is not a survey of the rights and wrongs of regular goodwill amortization, but the facts of regular amortization of goodwill, which were obtained through a questionnaire. In part, it includes seeking opinions on how to set the amortization period in accounting standards.[14]

Questionnaires were sent to 56 large-scale Japanese multinational corporations, and responses were collected from 26 companies (a 46.4% response rate). The per-industry breakdown of the responding companies was 15 manufacturing companies (58%), 5 finance companies (19%), and 6 other companies (23%); thus, manufacturing companies had significant weight. Note that responding companies included three companies that applied IFRS and four companies that used U.S. standards (the remaining companies applied Japanese standards).

Table 1-1 summarizes the question items and main findings of ASBJ Survey 1. The main contents of the survey were (1) the factors considered in estimating the goodwill amortization period, (2) the treatment method adopted for goodwill amortization ("Have you used a method besides the straight-line method?"), (3) the residual value of goodwill (whether the residual value of goodwill was estimated as other than 0), and (4) the requirements (regulation) related to the preferred amortization period in which goodwill amortization was reintroduced into IFRS. Among these, (1) and (4) are similar in content to the Keidanren survey. However, (2) and (3) are particular to this ASBJ Survey 1. Note that for questions (2) and (3), the results show that "no companies used a method besides the straight-line method" and "no companies estimated the residual value to be other than 0" (ASBJ Survey 1, p.14 ¶30, 31).

With respect to question (1), many respondent companies answered that they considered "the period when the acquiring company is expected to maintain a higher cash flow independently," "the period when synergy is expected to be achieved (through the merger)," and "the period of return on investment" when estimating the amortization period. It was reported in many responses that the goodwill amortization periods generated by major mergers were, in order, 20 years, 10 years, and 5 years (ASBJ Survey 1, pp.9-10 ¶21). With respect to actual amortization periods, when categorized by industry, many manufacturing companies stated it was within 10 years, while for finance companies, many respondents answered 20 years (ASBJ Survey 1, pp.11-12, ¶24-27). Concerning question (4), the results showed that most companies indicated they supported an approach that set a fixed upper limit on the number of years (including cases establishing the rebuttable presumption), and most

[14] Note that this study includes a review of information disclosed for companies that apply the Japanese standards referred to by the JPX Nikkei 400 and a review of a limited academic study concerning the utility of goodwill amortization. However, we skip the introduction here.

companies would set the upper limit of the amortization period at 20 years (ASBJ Survey 1 p.14, ¶33).[15]

In ASBJ Survey 1, the survey targets were only "large-scale multinational companies (which are likely to have experience of large-scale mergers and acquisitions within both Japan and overseas)," and it is impossible to know the opinions of companies outside that scope regarding the appropriate period for goodwill amortization. Moreover, we can point to the same limitations as in the Keidanren survey: it is difficult to generalize and interpret the results more broadly due to sample bias. Therefore, to address this issue in our survey, we asked the respondents about the factors they considered in relation to the goodwill amortization period, and prepared a separate question on how the goodwill amortization period should be prescribed.[16] Furthermore, to examine both preparers' and users' opinions, our survey also asked financial statement users how the amortization period should be prescribed.

ASBJ Survey 2

ASBJ Survey 2 employed interview surveys with eleven analysts (one of which was a credit analyst), concerning (1) how they use the merger information supplied in company financial statements when assessing company valuation or creditworthiness, (2) the kinds of goodwill-related disclosure that are useful, and (3) the most appropriate accounting treatment for goodwill after the fact: impairment only, or regular or immediate amortization accompanied by impairment testing (ASBJ Survey 2, p.10, ¶10).

ASBJ Survey 2 also asked analysts which approach they consider more desirable to account for goodwill following an acquisition: "regular amortization + impairment" or "impairment only (non-amortization)," which is a key topic of our survey. ASBJ Survey 2 is therefore also positioned as an important prior survey. For equity analysts, regardless of the type of information emphasized (cash flow versus information such as accounting income and net assets combined with cash flow), the ASBJ 2 results indicate that analysts supported both goodwill amortization and non-amortization. Although only a single credit analyst responded, that individual also supported goodwill amortization.

Moreover, although how analysts use goodwill accounting information may be viewed as an issue even when setting international standards (ABJ Survey 2, p.7), survey results on this issue are rare. ASBJ Survey 2 addresses this question by asking how analysts consider accounting information related to goodwill when analyzing securities, and how they consider the assumption that goodwill impairment will occur. The results of ASBJ Survey 2 report how both the equity and credit analysts interviewed actually considered goodwill-related information in their analyses, with very interesting

[15] Although a simple comparison is not possible, the Keidanren survey responses related to the expiration of the amortization period supported upper limits of 10 and 20 years.

[16] Note that only respondents who answered that "regular amortization + impairment" is the preferable accounting treatment for goodwill following an acquisition were asked about the goodwill amortization period. This is because it was judged preferable to question the group of respondents that supported regular amortization of goodwill about the goodwill amortization period rather than the group that felt that amortization was unnecessary.

results.

Although ASBJ Survey 2 was an interview survey conducted with a small number of analysts that elicited exceptionally detailed responses,[17] it was limited to a few topics, and it was not clear the extent to which analysts supported or did not support regular goodwill amortization. It is therefore difficult to more generally infer the extent to which analysts, as representative users of financial statements, support either regular amortization and impairment, or impairment only (non-amortization) for the accounting treatment of goodwill following an acquisition. In addition, a limitation of the survey is that the results are difficult to evaluate quantitatively. Furthermore, no quantitative investigation or analysis was performed on how accounting information is used to analyze goodwill. To supplement these points in our survey, we targeted more analysts to gather their opinions on accounting for goodwill following an acquisition and the actual conditions under which accounting information related to goodwill is used in security analysis.

Survey Contents

Although our survey shares some of the limitations of the Keidanren survey and the ASBJ Surveys, we formulated it to include our own independent perspective. Therefore, in the design of the specific questionnaire[18] (the question items and their response options), while we selected question items that refer to the question content and response results of the Keidanren and ASBJ surveys,[19] we also asked questions that do not reflect content from these prior surveys. Below, we deal with the specific question content and explain the major topics included in this survey.

(1) Do you think preparers and users of financial statements prefer "impairment only (non-amortization)" or "regular amortization + impairment" with respect to accounting for goodwill?

It is generally said that Japanese market participants, including companies, favor "regular amortization + impairment" (Maki, 2016; Keidanren survey).[20] Although the Keidanren survey presents results that support this argument, the subject of the investigation was also limited, and cannot be said to have clarified the preferences of more general financial statement users. The same point is also true of ASBJ Survey 2, which was an interview survey targeting analysts.[21]

Therefore, while we consider the results of prior surveys, we sought answers from a broader range

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[17] This point relates to the respective strengths and weaknesses of interview and questionnaire surveys. Although questionnaire surveys that cannot be simply said to be research issues have strengths not found in other research methods, there are also many drawbacks (Bloomfield *et al.*, 2016; Suzuki, 2016). For example, one drawback is that while it is easy to generalize questionnaire results, it is difficult to infer causal relationships between factors based on the answers.

[18] We also referred to the questionnaire used in Suda et al.'s (2011a, b) survey in designing our questionnaire (URL:http://www.cm.hit-u.ac.jp/~sasaki/survey).

[19] However, we should note a difference in the method, order, and wording of the questions on the material set in this way.

[20] Please also refer to the background of the conclusions of ASBJ (2015a) for the advantages and disadvantages of the prohibition of regular goodwill amortization in Japan.

[21] This is not to say the shares of those supporting and those not supporting goodwill amortization are shown in ASBJ Survey 2, but that the perspectives are mixed and the prior survey emphasizes introducing the rationale for each perspective.

of survey targets, and asked questions that consider respondents who are indifferent between the two processes to clarify the extent to which preparers and users of financial statements support "regular amortization + impairment" and the extent to which companies support "impairment only (non-amortization)."[22]

Furthermore, in this survey, based on the results of the previous surveys, we asked respondents why they consider either "regular amortization + impairment" or "impairment only (non-amortization)" desirable. Although these points were partially answered in the previous surveys, there is no quantitative understanding of which reasons are dominant, or of the foundations of their respective positions. We therefore aimed to differentiate our survey from prior surveys by attempting to clarify this point.[23]

Moreover, where respondents answered that "regular amortization + impairment" was preferable, we asked additional questions concerning the amortization period when performing regular goodwill amortization, its determining factors, and how the amortization period ought to be determined. As already described, this question was addressed in ASBJ Survey 1, and the results of our survey are complementary.

(2) How do preparers and users of financial statements perceive the characteristics of goodwill as an asset?

The main purpose of our survey is to clarify how preparers and users of financial statements feel about accounting for goodwill following an acquisition. However, to examine this issue further, we considered it necessary to also investigate the characteristics of goodwill as an asset; that is, the views of preparers and users of financial statements regarding goodwill. This is because the question of the best accounting treatment to apply to goodwill is related to the question of the perceived essential asset characteristics of the goodwill subjected to the accounting treatment.

If goodwill (in general) expresses excess earnings power, its value will be considered to decline through market competition. In addition, it is possible that the speed of the decline in excess earnings ability due to the company's competitive advantage, may not always be slow (Li and Sloan, 2017[24]; Obinata, 2013). On the other hand, there is also the view that (at least some) goodwill persists without depreciation, or that the depreciation in the value of goodwill is not apparent (Daigo, 2007; ASBJ, 2015b).[25]

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[22] Although various investigations using observed data (financial statement information and stock prices, etc.) were conducted on how prohibiting regular goodwill amortization affects the utility of financial statement information (e.g., Li and Sloan, 2017), it is difficult to clarify from these analyses whether financial statement users, as major financial participants, think regular goodwill amortization is appropriate. Offering clarification of this point is a strength of the analysis of this questionnaire survey.

[23] In this survey, we assumed that some respondents feel that either treatment is acceptable, and expanded the options to include "Indifferent between the two."

[24] Li and Sloan (2017, p.968, footnote 2), while raising the example of trademarks, point out that "although it is extremely difficult to predict the future benefits represented by goodwill, their economic lifespan may be quite short" (Li and Sloan, 2017, p.968).

[25] Dikinson and Sommers (2012) suggest that firms' strategic behavior aimed toward obtaining a competitive advantage helps them maintain their competitive positions (sustainability of profitability).

Considering the conflict between these views, in addition to asking whether "regular amortization + impairment" or "impairment only (non-amortization)" is preferable as accounting for goodwill following an acquisition, we also ask preparers and users of financial statements questions about the characteristics of goodwill (is there a portion of goodwill that does not semi-permanently depreciate, and what elements make up the structure of goodwill?). Note that previous surveys had similar questions, and we referred to their results when designing this questionnaire.

(3) How do users of financial statements handle the amount and amortization of goodwill in security analysis?

In ASBJ Survey 2, analysts were asked how they used accounting information related to mergers and how that information should be disclosed. Since examining how financial statement users (mainly analysts) handle accounting information related to goodwill in security analysis is important both academically and as a matter of policy, we also included questions for analysts regarding how they use the value of goodwill and goodwill amortization expense in security analysis. Likewise, we posed questions concerning whether they think the goodwill balance following amortization contains useful information, or whether they feel it is not useful.

(4) How should preparers and users of financial statements assess possible alternative accounting methods (the proper use of "amortization"/"non-amortization" by option and conditions, and theoretically substitutable methods) in accounting for goodwill?

In this survey, in addition to questions on the issues described above, we asked respondents about several other issues: 1) although not permitted under current accounting standards, a method in which the financial statement preparer arbitrarily chooses from "regular amortization + impairment" and "impairment only (non-amortization)" for each acquisition, and 2) a method in which, following the establishment of a certain condition[26] by accounting standards setters, non-amortization is permitted for goodwill satisfying that condition, while regular amortization is required for the rest.

Moreover, in addition to these questions, we included questions seeking "possible accounting methods" (separate from the immediate discussion) related to accounting for goodwill. In line with this survey's main research theme, there is a current discussion of accounting for goodwill following an acquisition based on a binary axis of "regular amortization + impairment" versus "impairment only (non-amortization)."

However, in addition to these two accounting methods, there are historical accounting methods as well as theoretically possible accounting methods (Umehara, 2000; Shimizu, 2003; Tanaka et al., 2006; Yamauchi, 2010), though these are not featured in this discussion. Specifically, those methods

[26] Of course, in such cases, there may be the issue of "what conditions" to establish to avoid arbitrary amortization or non-amortization of goodwill by financial statement preparers (or, can such conditions be set?).

include 1) reporting the cost simply as an acquisition cost (impairment is not required), 2) regular amortization without impairment, 3) continuous reassessment based on current value (the difference in value is included in the profit and loss calculation), 4) recording the value of goodwill immediately as a lump-sum expense,[27] and 5) lump-sum offsetting together with surplus (capital). Therefore, when we compared accounting methods 1—5 and the two current accounting treatments of "regular amortization + impairment" and "impairment only (non-amortization," we also asked respondents whether there was any accounting treatment besides the current two options that they considered preferable.

(5) Do additional disclosure and accounting practices related to goodwill affect company behaviors?

The relationship between the quality of financial reports, accounting standards, and companies' substantive investment behavior is a recent area of research where empirical knowledge is being accumulated (Biddle and Hilary, 2006; Biddle et al., 2009; Shroff, 2017; Garcia Lara et al., 2016; Gao and Yu, 2018; Nakano et al., 2015). Prior studies report that the quality of financial reports and specific accounting standards affect not only corporate capital investment behavior, but also merger and acquisition (M&A) decision making.

For example, Francis and Martin (2010) present evidence that timely accounting loss recognition has a positive influence on corporate acquisition decisions. However, Kravet (2014) points out that being required to recognize financial losses in a timely manner may lead to intentional avoidance of high-risk acquisitions, despite the expectation of a positive net present value (NPV), leading to a source of underinvestment. Cedegren et al.'s (2015) results, which have a particularly deep connection to this survey, show a trend of a growing decline in post-acquisition profitability and overpayment for acquisitions following the prohibition of regular goodwill amortization in the U.S. This result suggests the possibility that preventing regular amortization of goodwill leads to less discipline in companies' M&A behaviors.[28]

In ASBJ Survey 2, analysts pointed out that regular goodwill amortization may have positive or negative effects on how firms execute M&A. From both an academic perspective and a policy perspective it is considered meaningful to know whether the nature of the accounting treatment following initial goodwill acquisition might affect a firm's M&A decisions.

Considering the above, we included an item on the possibility that the method of goodwill

[27] ASBJ Survey 2 reports an analyst opinion supporting the immediate amortization of goodwill because problems exist with both regular amortization and non-amortization.
[28] ASBJ Survey 2 also reports that some analysts expressed similar concerns.

accounting (the presence or absence of regular amortization) affects M&A investment behavior. [29] [30]

Moreover, we asked whether it would be timelier to require disclosure of net assets following a goodwill balance deduction rather than recognition of a goodwill impairment loss as an additional disclosure related to goodwill. At present, the possibility that a goodwill impairment loss may not be recorded at the appropriate time is considered an issue, and improving evaluation of goodwill impairment is being sought. The idea of requiring disclosure of net assets after deducting goodwill (net asset value - goodwill balance) has also been presented to make the impairment loss recording timelier. If this rule comes true, companies will have to disclose the information about their net assets as if they are choosing to immediately amortize the goodwill without actually doing so. Such a disclosure acts as a mechanism that clarifies the reality of the overstated goodwill of companies, but obscures the reality of properly stated goodwill of companies.

In the above, we provided an overview of the question items without providing details about the questions themselves. In Section II, we introduce the specific questions. We first discuss the results of the survey of financial statement preparers, and then the results of the survey of financial statement users, while describing the aggregated results of each question.

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[29] The Keidanren survey investigated matters closely related to this question. Specifically, the survey results are introduced under the topic "Judging the application of IFRS and accounting for goodwill," and report that many companies applying IFRS considered the effects of non-amortization of goodwill at the time of applying the standards to their own company.

[30] Since this survey addresses only the question of "Does the accounting for goodwill affect decision-making in M&As," the cases and forms of these effects are a topic for future investigation.

Table 1-1：Comparison of questions from the Keidanren Survey and ASBJ Survey 1

Keidanren survey contents	ASBJ Survey 1 question content	Main findings
The appropriateness of goodwill amortization		**[Keidanren Survey]** Most companies (94% of respondents) supported "amortization + impairment."
The characteristics of goodwill		**[Keidanren Survey]** How the characteristics of goodwill (whether or not it depreciates) differ depending upon companies' support for either "amortization + impairment" or "impairment only."
Reasons for supporting the amortization (or non-amortization) of goodwill		**[Keidanren Survey]** 1: As a reason for supporting "**amortization + impairment,**" the opinion that it is desirable to amortize from the perspective of having an appropriate grasp of business performance following a merger (calculation of the investment recovery). Opinions that M&A can be evaluated on the same scale as a company's own capital investment are also seen. In addition, reducing the volatility of corporate performance, providing discipline for corporate management (M&A decision-making), and that the main source of goodwill is assumed to depreciate over time were given as reasons for supporting "amortization." 2: Among the reasons for supporting "**Impairment only**," some opined that there are elements of goodwill that do not depreciate over time and so to amortize everything is not logical, and that "Impairment only" can more clearly show investors the deviation from estimates made at the time of acquisition, as well as the problem of double-counting expenses.
Judgement of the application of		**[Keidanren Survey]** When applying IFRS, many

IFRS and the effects of the goodwill accounting		companies (including those planning to apply IFRS) examine the effects of non-amortization of goodwill, and decide whether to apply IFRS considering its advantages.
Concerning estimates of the number of years to amortize goodwill	Concerning estimates of the goodwill amortization period	**(Factors considered when estimating the amortization period) [ASBJ Survey 1]** Expected recovery period and period in which synergy (effects) extend. **[Keidanren Survey]** The factors mentioned in many of the responses were "a period in which the acquired company alone is expected to maintain a higher future cash flow" and "The period following the merger in which synergy is expected." Indeed, there were also many responses considering "the period of expected return on investment." **(The goodwill amortization period arising due to major mergers) [ASBJ Survey 1]** Total of 40 responses. The most common period was 20 years (38%), and the next was 10 years (20%), followed by 5 years (22%). The others were selections outside of these periods. **(Absence of internal rules) [Keidanren Survey]** Many companies set internal rules (some set 10 years as a principle, and others set the amortization period according to the importance of the goodwill). **[ASBJ Survey 1]** The majority of respondents (12/19, 63%) have internal rules, of which 7 companies opt for 5 years when the duration of the goodwill effect cannot be estimated with confidence or when the financial significance of the goodwill is low. In addition, two companies set the amortization period according

		to the scale of goodwill. **(Concerning the arbitrariness of estimating the goodwill amortization period) [Keidanren Survey]** Companies are working to reduce arbitrariness by thorough consultations with auditors and setting guidance. In addition, some argue that the "impairment only" approach is more arbitrary. **(Materials used as the basis for judging the goodwill amortization period) [ASBJ Survey 1]** "a. Board materials and approval documents" "b. External reports on due diligence at the time of acquisition and stock price calculations." Note that 8 of the 17 companies mentioned both a and b, while 5 out of 17 companies mentioned one or the other.
Concerning improvements to impairment testing		**[Keidanren survey]** 1: There are many opinions that the PH approach (pre-acquisition headroom) has both theoretical and practical issues. 2: In response to the "too little, too late" issue of impairment, there were opinions favoring the reintroduction of amortization, development of a simplified impairment test to reduce the burden on business performance, and the publication of guidance.
	Concerning the method of amortizing goodwill	**[ASBJ Survey 1]** There were no respondents favoring anything other than the straight-line method.
	Concerning the residual value of goodwill	**[ASBJ Survey 1]** All respondents indicated zero.
Concerning the maximum number of years to amortize goodwill	Requirements in accounting standards concerning the amortization period for goodwill	**[ASBJ Survey 1]** About half of respondents (12/25 companies, 48%) support an approach setting an upper limit on the amortization period (all supported a maximum of 20 years). One in three (7/25

		companies, 28%) supported an approach that enables the selection of a longer amortization period while setting the upper limit of the amortization period if it can be disproven by rational explanation (at that time, 5 companies set an upper limit of 10 years as the standard, 2 companies set 20 years); **[Keidanren Survey]** There were opinions that the upper limit of the amortization period should be set to 10 years when reintroducing amortization, and opinions that it should be set to 20 years (others indicated that it would be better to leave it to each company's best estimates without setting numerical standards). The Keidanren survey introduced several opinions that the rebuttable presumption should be set with 10 years as its basis.

(Note 1) Produced by the authors from the Keidanren survey and ASBJ Survey 1. (Question 7) and "Others" in ASBJ Survey 1 are excluded from the table. In addition, we should note that the wording of the survey content is that used in each survey and is left partially inconsistent. Furthermore, the authors summarized the parts of the findings thought to be of particular relevance to this survey. Please also note this point when referring to the table.
(Note 2) The light blue rows signify survey content shared between the Keidanren survey and ASBJ Survey 1 (the detail differs).
(Note 3) Survey items outlined in bold denote items shared with this survey.

II Survey evidence on preparers

II-1. Introduction

This survey research, "Research on Accounting for Goodwill," was conducted for financial statement preparers and users (mainly security analysists)[31] using web-based and paper-based questionnaires.[32] It should be noted that generous cooperation was given by Keidanren (the Japan Business Federation) and the Securities Analysts Association of Japan (SAAJ) in our research. Our survey period was from July 23, 2018, to October 20, 2018, although there was a slight difference between the groups surveyed.

In this report, we summarize the results of our survey research for preparers, and then review the results for users. Our sample of preparers consists of the following two groups:

1. Listed and non-listed companies that are members of Keidanren
2. Industrial firms listed on the Tokyo Stock Market's first section (other than Keidanren members)

We e-mailed the firms in the first group through Keidanren and asked them to answer the questions on our web site. We also sent a request letter and questionnaire to the firms in the second group[33] and asked them to respond to our questions using the paper-based questionnaire that we sent to them or through our web site. The web forms for the two groups are similar.[34] However, a question about which markets or sections a firm is listed on was removed from the paper-based questionnaire for the second group of firms.

We received 449 responses in total: 264 responses from the members of the first group (Keidanren-affiliated companies hereafter) and 185 responses from the members of the second group (Companies not affiliated with Keidanren hereafter).[35] We eliminated multiple responses from the same firms. We also eliminated responses from our sample when the main question (Q1, as mentioned below) was not answered. However, other than Q1, we included responses to questions with some errors in our sample if possible.

II-2. Sample characteristics

In our survey research, we requested that the firms provide their name (and security code for listed companies); however, if they chose not to provide their name, we asked them to answer several questions about their industrial classification (based on TOPIX Sector Indices [33 sectors]), the

[31] Details of our user data are described in III.
[32] When designing our web-based and paper-based questionnaires, we considered their comparability with the prior research mentioned in I. In addition, we conducted three pilot tests for practitioners to check whether our questionnaire was as we intended and then reconsidered whether the order of answers and questionnaire wording were appropriate.
[33] We compared the list of Keidanren member firms with that of firms listed on the first section of the Tokyo Stock Exchange and identified listed companies that were not members of Keidanren.
[34] Our questionnaires are available on Tokuga's website (URL: http://www.econ.kyoto-u.ac.jp/~tokuga/).
[35] One paper-based questionnaire was returned as undeliverable.

amounts of sales, total assets, and goodwill balance, and the accounting standards they employed. [36] We combined our survey data with financial data collected from Nikkei NEEDS and Kaiji Net. [37]

Our sample characteristics are shown in Tables 2-1 to 2-4. Panel A of Table 2-1 reports the number and frequency of responses by group.

Table 2-1 Number of responses by group, industry classification, and listing status

Panel A: Number of responses by group

	Number of Responses (N)	Percentage [%]
Keidanren-affiliated companies	264	58.8
Companies not affiliated with Keidanren	185	41.2
Total	449	100

Panel B: Number of responses by industry classification

	Industry	N	%			N	%
1	Fishery, Agriculture & Forestry	1	0.22	18	Precision Instruments	8	1.78
2	Mining	0	0.00	19	Other Products	9	2.00
3	Construction	29	6.46	20	Electric Power and Gas	3	0.67
4	Foods	17	3.79	21	Land Transportation	6	1.34
5	Transportation & Equipment	6	1.34	22	Marine Transportation	4	0.89
6	Pulp and Paper	1	0.22	23	Air Transportation	1	0.22
7	Chemical	12	2.67	24	Warehousing & Harbor Transportation	2	0.45
8	Pharmaceutical	9	2.00	25	Information & Communication	42	9.35
9	Oil and Coal Products	27	6.01	26	Wholesale Trade	42	9.35
10	Rubber Products	4	0.89	27	Retail Trade	37	8.24
11	Glass and Ceramics Products	5	1.11	28	Banks	7	1.56
12	Iron and Steel	7	1.56	29	Securities and Commodities Futures	3	0.67
13	Nonferrous Metals	4	0.89	30	Insurance	4	0.89
14	Metal Products	7	1.56	31	Other Financing Business	6	1.34
15	Machinery	17	3.79	32	Real Estate	10	2.23
16	Electric Appliances	28	6.24	33	Services	42	9.35
17	Transportation Equipment	17	3.79	34	Unclassified	32	7.13
					Total	449	100

[36] We required the preparers to provide financial figures based on the latest consolidated financial statements.
[37] However, for one firm, we collected data by hand due to corporate restructuring; for this firm, we used data after the period April 2017 and March 2018 (at the end of June 2018).

Panel C: Number of responses by listing status

	Number of responses	Percentage [%]
Non-listed companies	49	10.91
Listed companies	400	89.09
Total	449	100

Note: Green cells in Panel B indicate manufacturing industries.

Table 2-2 shows that more than half of our sample was established more than fifty years ago. Panel A of Table 2-3 shows that the percentages of smaller firms (sales<¥10 billion) and larger firms (sales≥ ¥ 50 billion) are relatively larger in our sample. Panels B and C of Table 2-3 show the distribution of our sample firms in size (total assets and net assets); these results are similar to those in Panel A of Table 2-3.

Panel D of Table 2-3 shows the sample distribution based on the carrying amount of goodwill. As panel D shows, the percentage of firms that did not recognize acquired goodwill on the balance sheet or that we did not find out whether recognized acquired goodwill is about 46.10%, and the percentage of respondents with relatively smaller carrying amounts of goodwill (<¥1 billion) is about 22.49%. Together, these total approximately 68.60%. The percentage of firms that report more than ¥1 billion in goodwill is about 31.40%, and the percentage of firms that report more than ¥50 billion in goodwill is about 10.24%.

Table 2-2 Firm Age[38]

	Number of responses	Percentage [%]
1. < 10	15	3.34
2. ≧10, <30	48	10.69
3. ≧30, <50	57	12.69
4. ≧50, <70	109	24.28
5. ≧70, <100	121	26.95
6. ≧100	44	9.8
7. Unknown	55	12.25
Total	449	100

[38] This table is provided for reference. We used data from the responses if respondents provided the firm age. However, if respondents did not provide the firm age, we calculated firm age only when we could collect the actual year of establishment from Nikkei NEEDS (when calculating firm age based on data from Nikkei NEEDS, we calculated it as of October 31, 2018). In this summary, we classified respondents into "unknown" when we did not receive a response regarding firm age or could not calculate it.

Table 2-4 shows the number and percentage of sample firms based on the accounting standards applied. Japanese GAAP was used by 81.74% of our sample, which requires firms to amortize and write off goodwill; 11.58% adopted U.S. GAAP or IFRS.

Table 2-3 Firm Size and Carrying Amount of Goodwill

Panel A: Sales

	Number of responses	Percentage [%]
1. < ¥ 100 billion	166	36.97
2. ≧¥100 billion, <¥200 billion	50	11.14
3. ≧¥200 billion, <¥300 billion	32	7.13
4. ≧¥300 billion, <¥400 billion	15	3.34
5. ≧¥400 billion, <¥500 billion	19	4.23
6. ≧¥500 billion	109	24.28
7. Unknown	58	12.92
Total	449	100

Panel B: Total Assets

	Number of responses	Percentage [%]
1. < ¥ 100 billion	175	38.98
2. ≧¥100 billion, <¥200 billion	41	9.13
3. ≧¥200 billion, <¥300 billion	27	6.01
4. ≧¥300 billion, <¥400 billion	18	4.01
5. ≧¥400 billion, <¥500 billion	13	2.9
6. ≧¥500 billion	117	26.06
7. Unknown	58	12.92
Total	449	100

Panel C: Net Assets

	Number of responses	Percentage [%]
1. < ¥ 100 billion	171	38.08
2. ≧¥100 billion, <¥200 billion	43	9.58
3. ≧¥200 billion, <¥300 billion	26	5.79
4. ≧¥300 billion, <¥400 billion	22	4.9
5. ≧¥400 billion, <¥500 billion	16	3.56

6. ≧¥500 billion	113	25.17
7. Unknown	58	12.92
Total	449	100

Panel D: Goodwill

	Number of responses	Percentage [%]
1. Zero or Unclassified	207	46.10
2. < ¥ 1 billion	101	22.49
3. ≧¥1 billion, <¥5 billion	45	10.02
4. ≧¥5 billion, <¥10 billion	23	5.12
5. ≧¥10 billion, <¥50 billion	27	6.01
6. ≧¥50 billion	46	10.24
Total	449	100

Table 2-4 Number of Firms by Accounting Standards Adopted

	Number of responses	Percentage [%]
Japanese GAAP	367	81.74
U.S. GAAP	10	2.23
IFRS	42	9.35
Unknown	30	6.68
Total	449	100

Note: We determined the above classifications based on data from our survey or data that we collected from Nikkei NEEDS or Kaiji NET. When we were unable to determine which standard a firm adopted, we classified the firm as "Unknown."

II-3. On the accounting treatment for acquired goodwill

"Impairment only (non-amortization)" versus "regular amortization + impairment"

The first question (Q1) is the most important question for our survey. We asked preparers to identify the approach they felt was more desirable: "impairment only (non-amortization)" or "regular amortization + impairment." However, we added "Either" (meaning the respondent was indifferent to the method used) as the third option because some preparers might not think either approach was more desirable.

(Q1) When a unified approach to the accounting treatment for acquired goodwill is required, which approach do you think would be better for yourself, "impairment only (non-amortization)" or "amortization + impairment"? (Options: (a) impairment only (non-amortization), (b) regular amortization + impairment, and (c) Either)

Table 2-5 Desirability of "Impairment-only (non-amortization)" versus "Regular Amortization and Impairment"

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
Impairment only (non-amortized)	73	16.26	39	16.12
Regular amortization + impairment	328	73.05	183	75.62
Either	48	10.69	20	8.26
Total	449	100	242	100

Our main findings, as seen in Table 2-5, are as follows:

- ✓ For the entire sample, the most popular answer is "regular amortization + impairment." There were 328 respondents (73.05% of all respondents) who chose "regular amortization + impairment." This pattern is the same even when we limit our sample to companies that have recognized goodwill.[39] As the right column of Table 2-5 shows, about 75.62% of companies that have recognized goodwill (183 respondents) chose option (2) as the more desirable approach to accounting for goodwill.
- ✓ Our result is consistent with previous research (the Keidanren survey). However, we should not ignore that a certain percentage of the respondents (16.26%) chose the "impairment-only approach (non-amortized)" for the entire sample (16.12% for companies that have recognized goodwill).[40] Approximately 10.69% of all respondents (48 respondents) chose the third option, "Either," while 8.26% (20 respondents) of companies that have recognized goodwill chose that option.

Table 2-6 Responses to Q1 by Keidanren-affiliated companies/Companies not affiliated with Keidanren

Panel A: The entire sample（number of respondents on the upper side and % of respondents on the lower side）

	Impairment only (non-amortization)	Regular amortization + impairment	Either	Total
Keidanren-	38	201	25	264

[39] Here, companies that have recognized goodwill refers to firms in our sample other than firms that have not recognized goodwill. Firms were classified as "Unknown" when we could not confirm whether they had recognized goodwill (the same applies hereafter).
[40] As mentioned in Section I, the Keidanren survey found that about 94% of their sample firms supported "regular amortization + impairment."

affiliated	14.39	76.14	9.47	100
Not affiliated with Keidanren	35 18.92	127 68.65	23 12.43	185 100
Total	73 16.26	328 73.05	48 10.69	449 100

χ^2=3.0979, p-value=0.212

Panel B: Only companies that have recognized goodwill（number of respondents on the upper side and % of respondents on the lower side）

	Impairment only (non-amortization)	Regular amortization + impairment	Either	Total
Keidanren-affiliated	24 16.55	109 75.17	12 8.28	145 100
Not affiliated with Keidanren	15 15.46	74 76.29	8 8.25	97 100
Total	39 16.12	183 75.62	20 8.26	242 100

χ^2=0.0523, p-value=0.974

Table 2-7 Responses to Q1 by Manufacturing/Non-manufacturing

Panel A: The entire sample（number of respondents on the upper side and % of respondents on the lower side）

	Impairment only (non-amortization)	Regular amortization + impairment	Either	Total
Manufacturing	26 14.61	140 78.65	12 6.74	178 100
Non-manufacturing	42 17.57	166 69.46	31 12.97	239 100
Unknown	5 15.63	22 68.75	5 15.63	32 100
Total	73 16.26	328 73.05	48 10.69	449 100

χ^2= 6.3166, p-value=0.177

Fischer's exact=0.149

Panel B: Only companies that have recognized goodwill（number of respondents on the upper side and % of respondents on the lower side）

	Impairment only (non-amortization)	Regular amortization + impairment	Either	Total
Manufacturing	15 14.42	81 77.88	8 7.69	104 100
Non-manufacturing	24 17.52	101 73.72	12 8.76	137 100
Unknown	0 0	1 100	0 0	1 100
Total	39 16.12	183 75.62	20 8.26	242 100

χ^2=0.8920, p-value=0.926

Fischer's exact=0.841

Next, to see whether the response patterns differ based on firm characteristics, we divide our sample into two sub-samples based on firm characteristics. In this research, we focused on only two characteristics. First, we divide our sample into two sub-groups based on whether a firm is a member of Keidanren. Because the previous research conducted by the Keidanren survey that about 94 % of the sample supported the amortization approach, we considered whether an endogeneity problem of Keidanren-affiliated firm responses might drive our main results.

Second, we divide our sample into two sub-groups based on whether a firm was classified as a manufacturing firm. Manufacturing firms are said to be likely to seek to extend their core businesses and grow internally (or to aim at "organic growth"). Non-manufacturing firms, on the other hand, are more likely to aim at "M&A growth." To test whether this difference between manufacturing and non-manufacturing firms influences our main result, we conducted a second analysis.

The results of our additional analyses are shown in Tables 2-6 and 2-7. χ^2 and p-values in these tables indicate the result of the chi-squared test (this is the same hereafter). We also report the value of Fisher's exact probability test ("Fisher's exact") in the tables only when Fisher's exact test was performed.

Our findings from Tables 2-6 and 2-7 are as follows.

- ✓ Regarding both Keidanren-affiliated companies and firms not affiliated with Keidanren, the percentage of respondents supporting "regular amortization + impairment" is highest. This result does not change when we limit our sample to only companies that have recognized goodwill. We also confirmed that, for both manufacturing firms and non-manufacturing firms, the percentage of respondents supporting "regular amortization + impairment" is the highest, and we find a similar pattern for companies that have recognized goodwill.

✓ We could not reject the null hypothesis of no association between firm characteristics (Keidanren-affiliated companies/Companies not affiliated with Keidanren" or "Manufacturing/Non-manufacturing/Unknown") and the responses ("impairment only (non-amortized)," "regular amortization + impairment," or "Either"). This result shows that the firm characteristics focused on in this research are not likely to influence the Q1 results.

In summary, our main result is not influenced by whether respondents are a member of Keidanren or whether they are engaged in a manufacturing industry.

Additional questions to the respondents supporting "impairment only (non-amortization)"

Based on the responses to Q1, we asked the respondents (excluding respondents who chose "Either") to answer several additional questions about the reason they chose "impairment only (non-amortization)" and other related questions. First, we introduce the additional questions for the respondents who supported "impairment only (non-amortization)" and then explain their responses.

(Q1-1) To what extent do you agree on the following reasons that "impairment only (non-amortization)" is more desirable? (Options: 1 = "Yes," 2 = "Rather yes," 3 = "Rather no," 4 = "No," 5 = "Unsure").

1. It is hard to estimate the useful life and depreciation pattern of the carrying amount of goodwill.
2. The value of goodwill is maintained by company efforts after it is acquired.
3. Goodwill amortization expense and the carrying amount of goodwill after amortization are not useful for financial statement users.
4. If an appropriate impairment test is conducted, regular amortization of goodwill is not needed.
5. The goodwill amortization expense amount decreases accounting earnings.
6. Amortization of goodwill can be a competitive disadvantage with rival firms that need not amortize the carrying amount of goodwill.
7. Amortizing goodwill weakens the signaling effect of goodwill impairment.

We identified the seven reasons listed in our survey based on past arguments and research. We asked the respondents who supported "impairment only approach (non-amortized)" to answer the question, "Do these items correspond to a reason you think "impairment only (non-amortization)" is more desirable?" The results are shown in Table 2-8.

Table 2-8 Reasons for Support of “Impairment only (non-amortization)”

Panel A: It is hard to estimate the useful life and depreciation pattern of the carrying amount of goodwill.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	37	51.39	21	55.26
2. Rather yes	24	33.33	12	31.58
3. Rather no	4	5.56	1	2.63
4. No	6	8.33	4	10.53
5. Unsure	1	1.39	0	0
Total	72	100	38	100

Panel B: The value of goodwill is maintained by company efforts after it is acquired.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	27	37.5	16	42.11
2. Rather yes	33	45.83	18	47.37
3. Rather no	6	8.33	1	2.63
4. No	5	6.94	3	7.89
5. Unsure	1	1.39	0	0
Total	72	100	38	100

Panel C: Goodwill amortization expense and the carrying amount of goodwill after amortization are not useful for financial statement users.

		Entire sample		Companies that have recognized goodwill	
		Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes		12	16.67	8	21.05
2. Rather yes		23	31.94	10	26.32
3. Rather no		13	18.06	8	21.05
4. No		17	23.61	10	26.32

5. Unsure		7	9.72	2	5.26
Total		72	100	38	100

Panel D: If an appropriate impairment test is conducted, regular amortization of goodwill is not needed.

	Entire sample		Non-zero goodwill firms	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	37	51.39	22	57.89
2. Rather yes	26	36.11	11	28.95
3. Rather no	4	5.56	4	10.53
4. No	4	5.56	1	2.63
5. Unsure	1	1.39	0	0
Total	72	100	38	100

Panel E: The goodwill amortization expense amount decreases accounting earnings.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	17	23.94	12	31.58
2. Rather yes	25	35.21	10	26.32
3. Rather no	15	21.13	10	26.32
4. No	12	16.9	6	15.79
5. Unsure	2	2.82	0	0
Total	71	100	38	100

Panel F: Amortization of goodwill can be a competitive disadvantage with rival firms that need not amortize the carrying amount of goodwill.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	15	20.83	10	26.32
2. Rather yes	24	33.33	9	23.68
3. Rather no	18	25	10	26.32

4. No	12	16.67	8	21.05
5. Unsure	3	4.17	1	2.63
Total	72	100	38	100

Panel G: Amortizing goodwill weakens the signaling effect of goodwill impairment.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	8	11.11	5	13.16
2. Rather yes	28	38.89	15	39.47
3. Rather no	16	22.22	6	15.79
4. No	14	19.44	9	23.68
5. Unsure	6	8.33	3	7.89
Total	72	100	38	100

- ✓ The percentage of respondents answering “Yes” or “Rather yes” is larger for “It is hard to estimate the useful life and depreciation pattern of the carrying amount of goodwill.” (Panel A), “The value of goodwill is maintained by company efforts after it is acquired.” (Panel B), and “If an appropriate impairment test is conducted, regular amortization of goodwill is not needed.” (Panel D).
- ✓ In particular, for “It is hard to estimate the useful life and depreciation pattern of the carrying amount of goodwill” (Panel A) and “If an appropriate impairment test is conducted, amortization of goodwill is not needed” (Panel D), more than fifty percent of respondents answered “Yes.” Our results are consistent with the IASB’s argument and indicate that many respondents think “impairment only (non-amortization)” is more desirable for these reasons. [41]
- ✓ Next, it is worth noting that, for “The value of goodwill is maintained by company efforts after it is acquired” (Panel B), the percentage of respondents answering “Yes” or “Rather yes” is slightly more than eighty percent (if limiting our data to non-zero goodwill firms, the percentage is nearly ninety percent). This result can be interpreted as follows: the responses supporting “impairment only (non-amortization)” are likely to reflect how preparers recognize goodwill as an asset as well as how difficult they think it is to estimate the inputs needed to amortize goodwill, such as its useful life.
- ✓ However, opinions are divided on the remaining reasons, that is, “Goodwill amortization expense

[41] Theoretically, amortization and impairment are not interchangeable, but, in practice, it is quite possible that impairment could be used as an alternative to amortization (Li et al. (2011)).

and the carrying amount of goodwill after amortization are not useful for financial statement users" (Panel C), "The goodwill amortization expense amount decreases accounting earnings" (Panel E), "Amortization of goodwill can be a competitive disadvantage with rival firms that need not amortize the carrying amount of goodwill" (Panel F), and "Amortizing goodwill weakens the signaling effect of goodwill impairment" (Panel G). The combined percentages of "Yes/Rather yes" and "Rather no/No" for these reasons are almost 50 percent, although the percentage of "Yes/Rather yes" is a slightly greater than that of "Rather no/No."

- ✓ We can point out the following things about these results:
  1. Among the respondents supporting the impairment-only approach, some respondents did not necessarily think goodwill amortization expense and the carrying amount of goodwill after amortization were useful for financial statement users.
  2. Concerning the signaling effect of goodwill impairment (ASBJ survey 1, pp.18, ¶36), which has been emphasized by the IASB, some preparers regarded it as compelling evidence that "impairment only (non-amortization)" is more desirable than "regular amortization + impairment", while others did not.
  3. In general, it is said that preparers prefer the impairment-only approach (non-amortized) to the regular amortization + impairment approach because amortization expense decreases accounting earnings. However, our results show that many preparers did not regard this as a compelling reason. Furthermore, this result does not change when we limit our data to companies that have recognized goodwill. [42]

Next, we asked the following open-ended question about reasons that respondents thought "impairment only (non-amortization)" is more desirable than "regular amortization + impairment."

(Q1-2) If you have any reasons why you think "impairment only (non-amortization)" is more desirable, other than those mentioned in Q1-1, please describe them below.

We received 12 responses in total,[43] summarized as follows.

- ➢ The effect on M&A decisions (i.e., firms can conduct M&A more easily).[44]
- ➢ We can measure success or failure of M&A more appropriately.[45]

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[42] However, it is not easy to interpret this response because the goodwill carrying amounts of Japanese firms are smaller than those of foreign firms (e.g., U.S. firms) and goodwill amortization expense may not be a significant financial burden. From another perspective, it is also possible respondents may have psychological reasons, such that it is hard for them to respond to that point positively (in other words, it can be interpreted that they might have taken an honorable attitude when answering that question).

[43] Responses such as "Nothing" were excluded (hereafter, the same applies to the following open-ended questions).

[44] We set up a question related to this point separately later but mention it here because we received four responses about this point.

[45] Some respondents pointed out that a straight-line, regular amortization method would not be appropriate for business conditions in the age of rapid change or that annual impairment testing can result in sound or transparent management. Moreover, a respondent also suggested that it be desirable for management to explain the carrying amount of goodwill, for example in a financial statement note, so that investors could evaluate it.

- The choice of amortization period and amortization method (under “regular amortization + impairment”) can impair comparability (of financial reporting).
- Consistency with IFRS.
- Consistency with accounting treatments of foreign subsidiaries adopting IFRS.
- Because it is more desirable to measure the success or failure of asset sales based on acquisition cost including the amount of goodwill when selling an acquired business after a certain period.

Additional questions to the respondents supporting regular amortization + impairment approach

In the following, we explain additional questions asked of the respondents who indicated “regular amortization + impairment” is more desirable than “impairment only” (non- amortized); we then summarize the responses. We asked the respondents who supported “regular amortization + impairment” to answer the following question.

(Q1-3) To what extent do you agree on the following reasons that“regular amortization + impairment” is more desirable? (Options: 1 = “Yes,” 2 = “Rather yes,” 3 = “Rather no,” 4 = “No,” 5 = “Unsure”).

1. Excess earnings power represented by goodwill gradually decreases due to market competition.
2. The carrying amount of goodwill should be allocated to the appropriate periods to match revenues and expenses.
3. It is impossible to distinguish between the diminished and maintained components of goodwill value.
4. It is consistent with accounting treatments for other depreciable assets.
5. Amortization cannot be replaced by impairment.
6. It leads to prudent M&A decisions.
7. It reduces the cost of the goodwill impairment test.

Table 2-9 Reasons for Support of “Amortization + Impairment”

Panel A: Excess earnings power represented by goodwill gradually decreases due to market competition.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	97	29.66	66	36.26
2. Rather yes	154	47.09	78	42.86
3. Rather no	36	11.01	17	9.34
4. No	26	7.95	12	6.59
5. Unsure	14	4.28	9	4.95

Total	327	100	182	100

Panel B: The carrying amount of goodwill should be allocated to the appropriate periods to match revenues and expenses.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	171	52.29	100	54.95
2. Rather yes	120	36.7	66	36.26
3. Rather no	18	5.5	7	3.85
4. No	14	4.28	8	4.4
5. Unsure	4	1.22	1	0.55
Total	327	100	182	100

Panel C: It is impossible to distinguish between the diminished and maintained components of goodwill value.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	50	15.29	29	15.93
2. Rather yes	157	48.01	85	46.7
3. Rather no	54	16.51	28	15.38
4. No	49	14.98	31	17.03
5. Unsure	17	5.2	9	4.95
Total	327	100	182	100

Panel D: It is consistent with accounting treatments for other depreciable assets.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	69	21.23	47	25.97
2. Rather yes	160	49.23	85	46.96
3. Rather no	56	17.23	28	15.47

4. No	32	9.85	16	8.84
5. Unsure	8	2.46	5	2.76
Total	325	100	181	100

Panel E: Amortization cannot be replaced by impairment.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	% of respondents	Number of respondents	% of respondents
1. Yes	53	16.21	31	17.03
2. Rather yes	136	41.59	79	43.41
3. Rather no	66	20.18	31	17.03
4. No	39	11.93	22	12.09
5. Unsure	33	10.09	19	10.44
Total	327	100	182	100

Panel F: It leads to prudent M&A decisions.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	61	18.71	40	22.1
2. Rather yes	113	34.66	68	37.57
3. Rather no	73	22.39	37	20.44
4. No	54	16.56	25	13.81
5. Unsure	25	7.67	11	6.08
Total	326	100	181	100

Panel G: It reduces the cost of the goodwill impairment test.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	58	17.79	32	17.68
2. Rather yes	109	33.44	60	33.15

3. Rather no	83	25.46	49	27.07
4. No	67	20.55	36	19.89
5. Unsure	9	2.76	4	2.21
Total	326	100	181	100

- ✓ For "Excess earnings power that goodwill represents gradually decreases due to market competition" (Panel A), "Yes" or "Rather yes" answers represent 76.75% of the entire sample and 79.12% for companies that have recognized goodwill.
- ✓ Regarding "The carrying amount of goodwill is allocated to appropriate periods to match revenues and expenses" (Panel B), 88.99 % of all respondents answered "Yes" or "Rather yes" and, when we limit our data to companies that have recognized goodwill, 91.21 % of the respondents answered "Yes" or "Rather yes." The percentage of "Yes" or "Rather yes" responses is higher in Panel B than in Panel A. These results can be interpreted as indicating that some preparers supported "regular amortization + impairment" from the perspective of matching revenues and expenses[46] and would like to measure the success or failure of investment recovery.
- ✓ For "It is impossible to distinguish between the diminished and maintained components of goodwill value" (Panel C), 63.3% of all respondents and 62.36% of respondents from companies that have recognized goodwill answered "Yes" or "Rather yes." For "It is consistent with accounting treatments for other depreciable assets" (Panel D), the percentage of respondents answering "Yes" or "Rather yes" is 70.46% for the entire sample and 72.93% for the companies that have recognized goodwill.
- ✓ Regarding "Amortization cannot be replaced by impairment" (Panel E), opinions are divided. The percentage of respondents choosing "Yes" or "Rather yes" is 57.8% for the entire sample. Even when we limit our data to companies that have recognized goodwill, the percentage is 60.44%. Interestingly, it is possible that some respondents consider regular amortization of goodwill has a role that cannot be replaced by impairment and thus support "regular amortization + impairment"; however, we do not know whether the underlying reason is grounded in a theoretical or practical viewpoint. On the other hand, it is also possible that most of the remaining respondents do not think the same way.
- ✓ With regard to "It leads to prudent M&A decisions." (Panel F), the percentage of "Yes" or "Rather yes" answers is 53.37% for the entire sample and 59.67% for companies that have recognized goodwill. Some respondents pointed out regular amortization serves as a mechanism that leads to more prudent M&A decisions due to a concern that eliminating goodwill amortization would result in ill-advised M&A decisions. More than half the respondents thought "amortization +

[46] Note that learning of accounting principles for business enterprises or accounting education through on-the-job training may influence the responses.

impairment" was more desirable for this reason. On the other hand, a certain portion of respondents did not consider that the reason in Panel F was necessarily important. (The results in Panel F are consistent with the results of the responses to Q5, which we discuss later.)

- ✓ Finally, only 52.13% of the entire sample and 50.83% of the companies that have recognized goodwill chose "Yes" or "Rather yes" with regard to "It reduces the cost of the goodwill impairment test." (Panel G), illustrating a division of opinions.[47]

In addition, we asked the following open-ended question about reasons "regular amortization + impairment" is more desirable other than those listed in Q1-3.

> (Q1-4) If you have any other reasons why you think "amortization + impairment" is more desirable, other than those mentioned in Q1-3, please describe them below.

We received 36 responses in total. In summary, the responses are as follows. [48]

- Influence on earnings available for dividends
- Regular amortization approach is a simple approach to remeasuring the carrying amount of goodwill.
- Decreasing future impairment risk.
- Concern about room for use of discretion, for example, earnings management such as a "big bath."
- The viewpoint of matching revenues and expenses (or the viewpoint of calculating investment return).
- That not requiring amortization of goodwill results in recognition of internally-generated goodwill.
- From the viewpoint of the burden in practice.
- From the viewpoint of conservatism.
- The amortization and impairment approach is more transparent.
- Doubt whether goodwill is an asset.
- It can result in tax savings in some cases.
- Large amounts of goodwill impairment have negative effects on long-term operating decisions.

[47] There several reasons for this variation. For example, it is possible that there is a group that believes requiring regular goodwill amortization reduces the cost of impairment and a group that disagrees. It is also possible preparers believe that requiring regular amortization of goodwill can reduce the cost of impairment, but do not regard it as an important reason why the regular amortization + impairment approach is more desirable. In addition, as pointed out in a response in the open-ended form, if regular amortization is not required, a strict annual impairment test was required regardless of the amount of goodwill, resulting in larger costs in practice. (However, among the respondents supporting the impairment-only approach (non-amortized), some believed that the success and failure of M&A could be appropriately measured by such a strict impairment test.)

[48] Some responses were supplements to respondents' answers to prior questions, so they are not mentioned here. Rather, we refer to the interpretation of the results of the responses to the prior question.

The largest percentage of responses were those that emphasized the perspective of matching revenues and expenses (or the viewpoint of measuring investment return).[49] As an opinion, one respondent pointed out that fulfilling accountability related to the estimated goodwill amortization period and others contributes to constructive discussions with investors. Another respondent again emphasized that "amortization + impairment" results in more prudent M&A decisions. Furthermore, one respondent doubted whether a balance sheet reflects the firm's economic reality if a large portion of the assets on the balance sheet comprises goodwill.

On important factors when estimating the goodwill amortization period

Next, we asked the respondents who supported "regular amortization + impairment" to indicate whether the factors we listed were important factors.

(Q1-5) To what extent do you think the following factors are important when prepares estimates the goodwill amortization period? For each factor, please choose one of the following options (Options: 1 = "Yes," 2 = "Rather yes," 3 = "Rather no," 4 = "No," 5 = "Unsure").[50]
1. The investment-return period based on managements' business plan.
2. The time period over which synergies are expected to be maintained.
3. Time periods over which an acquirer, on stand-alone basis, is expected to maintain higher future cash flows.
4. Useful lives of related tangible assets.
5. Useful lives of related other intangible assets.

Table 2-10 Important Factors in the Estimation of the Goodwill Amortization Period

Panel A: The investment-return period based on managements' business plan

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	166	50.76	100	54.64
2. Rather yes	129	39.45	65	35.52
3. Rather no	22	6.73	13	7.1
4. No	8	2.45	4	2.19
5. Unsure	2	0.61	1	0.55

[49] We conducted our survey given "The carrying amount of goodwill is allocated to appropriate periods to match revenues and expenses" (Panel B, Table 2-9) reflected this viewpoint. Several respondents emphasized the viewpoint, "measuring investment return by matching revenues and expenses" in the answer to this question.
[50] For this question, we noted "If you recognize no goodwill or if you adopt U.S. GAAP or IFRS, please answer this question as if you had to amortize goodwill."

Total	327	100	183	100

Panel B: The time period over which synergies are expected to be maintained.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	101	30.89	60	32.79
2. Rather yes	158	48.32	85	46.45
3. Rather no	42	12.84	24	13.11
4. No	17	5.2	9	4.92
5. Unsure	9	2.75	5	2.73
Total	327	100	183	100

Panel C: Time periods over which an acquirer, on stand-alone basis, is expected to maintain higher future cash flows.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	50	15.29	30	16.39
2. Rather yes	145	44.34	85	46.45
3. Rather no	85	25.99	45	24.59
4. No	33	10.09	17	9.29
5. Unsure	14	4.28	6	3.28
Total	327	100	183	100

Panel D: Useful lives of related tangible assets.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	14	4.28	10	5.46
2. Rather yes	64	19.57	36	19.67
3. Rather no	135	41.28	69	37.7

4. No	95	29.05	58	31.69
5. Unsure	19	5.81	10	5.46
Total	327	100	183	100

Panel E: Useful lives of related other intangible assets.

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Yes	17	5.2	11	6.01
2. Rather yes	90	27.52	53	28.96
3. Rather no	123	37.61	62	33.88
4. No	81	24.77	48	26.23
5. Unsure	16	4.89	9	4.92
Total	327	100	183	100

- ✓ For "the investment-return period based on managements' business plan" (Panel A), 90.21% of the entire sample and 90.16% of the limited sample of companies that have recognized goodwill chose "Yes" or "Rather yes." The percentage of respondents choosing "Yes" reached 59.63% for the entire sample and 62.84% for the companies that have recognized goodwill. These results show that the investment-return period at the time goodwill is acquired is the most important of the factors shown in Q1-5.
- ✓ For "the time period over which synergies are expected to be maintained" (Panel B), 79.21% of the entire sample and 79.24% of the respondents that have recognized goodwill answered "Yes" or "Rather yes." For "time period over which an acquirer, on stand-alone basis, is expected to maintain higher future cash flows" (Panel C), 59.63% of the whole sample and 62.84% of the respondents that have recognized goodwill answered "Yes" or "Rather yes."
- ✓ These results indicate the following: most of the respondents consider the time period over which synergies are expected to be maintained as an important factor when estimating the goodwill amortization period. However, the percentage of responses of "Yes" or "Rather yes" for this reason is lower than that for the investment-return period based on managements' business plan. It is interesting that there is a slight difference between the pattern of responses in Panels A and B. This difference indicates that, when determining the amortization period for goodwill, preparers think the expected recovery period at the time of an investment decision is a more important factor than the time period over which synergies are expected to be maintained.
- ✓ However, it is also possible that, although respondents actually had an reason close to "the time

period over which synergies are expected to be maintained" (Panel B), they were compelled to choose "the investment-return period based on managements' business plan" (Panel A) because it is so difficult at the time of an acquisition decision to estimate the period over which synergies are expected to be sustained.

- ✓ Moreover, we can point out another relationship between the results in Panels A and B. For example, we can imagine the following two different situations: first, a synergy is expected to be realized over fifteen years, but management has a plan to recover it over only ten years. Second, a synergy is expected to be realized over only seven years, but management has a plan to recover it (with normal profits) over a much longer period, such as thirty years. Even in the latter case, management might decide to conduct M&A even though the time period over which the synergy is expected to be realized is shorter than that over which the investment is expected to be recovered if there is a firm they want to acquire.
- ✓ However, it should be noted there is a possibility that the respondents had different interpretations of the concept "the investment-return period" when answering this question. For example, in the case of investing ¥10 billion in a firm with a value of ¥8 billion, respondents could interpret this as meaning not only "the recovery period of the total amount of investment costs ¥10 billion," but also "the recovery period of ¥2 billion over net asset value of the acquired company, ¥8 billion." Our survey does not deal with this issue, which represents a limitation to our interpretation of the results.
- ✓ Finally, for "useful lives of related tangible assets" (Panel D), the share of "Yes" or "Rather yes" answers for the entire sample is only 23.85%, and 25.13% for companies that have recognized goodwill. For "useful lives of related other intangible assets" (Panel E), 32.72% of all respondents answered "Yes" or "Rather yes," while 34.97% of companies that have recognized goodwill gave those answers. The percentages for "useful lives of related other intangible assets" are a little higher than those of "useful lives of related tangible assets," but smaller compared to other factors. The last two factors are likely regarded as less important than the first three factors.

Following Q1-5, we asked the same respondents to answer the following question.

(Q1-6) If you have any important factors when estimating the goodwill amortization period, other than those listed in Q1-5, please describe them below.

There were a total of ten responses. In summary, the responses (or opinions) were as follows.

- ➢ After determining an upper limit for the amortization period, multiple factors such as industry characteristics and a company's perspective on how to recover investments should be considered when estimating the amortization period for goodwill.
- ➢ The expected period of future cash flows at the time of acquisition.

- A uniform rule is desirable to exclude accounting discretion.
- The difference between the average age of the acquired firm's employees and the retirement age.
- Market growth, which generates goodwill.
- The time period over which the brand value is expected to be sustained or increase.

In addition to these responses, a respondent commented that "Useful lives of related tangible assets" and "Useful lives of related other intangible assets" could be acceptable if it was rational to use them. Another respondent listed the time period which was used to estimate the value of goodwill and then mentioned that it was close to "the time period over which synergies are expected to be maintained." Moreover, a respondent proposed that an amortization period that preparers decided to adopt was the most rational.

Regarding how to prescribe the rule for the goodwill amortization period

In our research, we asked the respondents who answered that "amortization + impairment" was more desirable to answer several additional questions about how to prescribe the rule for the goodwill amortization period. Specifically, the questions address whether the rule should give complete or partial discretion to preparers or exclude discretion and instead prescribe a uniform amortization period.

(Q1-7) Given that "amortization + impairment" is more desirable as the accounting approach for goodwill, how do you think a requirement determining the goodwill amortization period should be prescribed? Please choose an option you think is the most desirable for you.
(Options)
1. An upper limit should be set for the amortization period（e.g., the rule should be prescribed in the form "Be amortized within … years "）.
2. A uniform amortization period should be set (e.g., the rule should be prescribed in the form "Be amortized in just … years"）.
3. No provision about the amortization period should be set.

Table 2-11 Provision of the Amortization Period

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. An upper limit should be set for the amortization period.	232	71.17	131	71.58
2. A uniform amortization period	36	11.04	20	10.93

should be set.				
3. No provision about the amortization period should be set.	58	17.79	32	17.49
Total	326	100	183	100

- ✓ We asked the respondents to choose the most desirable option from the following three options to provide an amortization period: "an upper limit should be set for the amortization period（e.g. The rule should be prescribed in the form "Be amortized within … years "）" (Option 1), "A uniform amortization period should be set (e.g., the rule should be prescribed in the form "Be amortized in just … years"）" (Option 2), and "No provision about the amortization period should be set" (Option 3). The results show that more than 70% of the respondents for both the entire sample and the limited sample of companies that have recognized goodwill chose the option (1) ("An upper limit should be set for the amortization period").
- ✓ However, approximately 11% of the respondents for both the entire sample and the limited sample of companies that have recognized goodwill chose option (2) ("A uniform amortization period should be set"). Although a certain percentage of the respondents required a uniform amortization period, the percentage for this option is the lowest of the three.
- ✓ Approximately 17% of the respondents chose option (3) "No provision about the amortization period should be set." for both the entire sample and the sample of companies that have recognized goodwill.
- ✓ It is interesting that, whether setting an upper limit on the amortization period or a uniform amortization period, most respondents required a certain prescription of the amortization period and less than 1/4 of the respondents thought no specific requirement for the amortization period should be mandated. Most preparers are likely to require a certain restriction on the amortization period combined with requiring certain discretion in its determination. These results can be interpreted as most preparers do not require complete discretion but demand a certain level of restriction on the accounting treatment of goodwill (that is, they need to receive official approval for achieving their accountability within a given rule).

Next, we asked the respondents who selected the second option "An upper limit of amortization period should be set" to answer the following question.

(Q1-8) How many years do you think should be chosen as the upper limit of the goodwill amortization period? Please choose one of the following options. If you choose "Other," please fill in the blank with any specific number of years.

Table 2-12 Upper Limit of the Goodwill Amortization Period

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
20 years	131	56.96	80	61.54
15 years	17	7.39	10	7.69
10 years	69	30	33	25.38
5 years	9	3.91	4	3.08
Other	4	1.74	3	2.31
Total	230	100	130	100

- ✓ For the entire sample, the highest percentage of all respondents, 59.69%, chose "20 years," which is currently required by Japanese GAAP. The percentage of those in the entire sample who chose "10 years" is second highest at 30%. These results are similar when we limit our data to companies that have recognized goodwill. The ASBJ's previous research shows that most respondents chose "20 years," and our results are consistent with their results. These results are likely to be influenced by the current accounting treatment.
- ✓ The answers of respondents who chose "Other" were as follows: 3 years, 25 years, 30 years, and 50 years for the entire sample (25 years, 30 years, and 50 years for companies that have recognized goodwill).

Furthermore, we asked the respondents who chose "A uniform amortization period should be set" to answer the following question.

(Q1-9) How many years do you think a uniform amortization period should be? If you choose "Other", please fill in the blank with any specific number of years.

Table 2-13 A Uniform Amortization Period

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
20 years	5	13.89	4	20
15 years	1	2.78	1	5

10 years	15	41.67	9	45
5 years	14	38.89	5	25
Other	1	2.78	1	5
Total	36	100	20	100

- ✓ Several respondents who favored requiring the amortization of goodwill over a uniform period excluding room for preparers' discretionary determination of the amortization period chose "10 years" and "5 years."
- ✓ One respondent who chose "Other" suggested "5 or 10 years."[51]

Finally, we asked the respondents who chose either "An upper limit should be set for the amortization period" or "A uniform amortization period should be set" to answer the following question about whether the rebuttable presumption should be made.

(Q1-10) Do you think the rebuttable presumption of a goodwill amortization period should be made? (Options: 1 = "Should be made," 2 = "Should not be made")

Table 2-14 Should the rebuttable presumption Be Made?

	Entire sample		Companies that have recognized goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Should be made	109	41.44	62	42.18
2. Should not be made	154	58.56	85	57.82
Total	263	100	147	100

- ✓ Surprisingly, we find a higher proportion of "Should be made" than "Should not be made." The result shows the opinion that the rebuttable presumption should be made was not necessarily dominant and many respondents have a strong opinion that no exemption should be made (they might consider it is desirable to eliminate inconsistency).
- ✓ However, for respondents who answered "a uniform amortization period," it is possible they selected different answers depending on the uniform amortization period they imagined when they answered Q1-10. For example, they might have chosen "Should be made" if they imagined

[51] Strictly speaking, the respondent chose both "5 years" and "Others" and then filled in the blank with "or 10 years". We decided to classify it as "Other (5 or 10 years)" when totaling the survey results.

5 years as the uniform amortization period, but “Should not be made” if they imagined the set period as 10 or 20 years. In this sense, there are some limitations to our interpretation of the results.

✓

II-4. Characteristics of Goodwill as an Asset

This section explains the questions and responses regarding the characteristics of goodwill as an asset. The first questions asked are as follows.

Is there any part of goodwill that does not amortize semi-permanently?

(Q2) Do you think there is a part of goodwill that preserves its value semi-permanently? Please select one answer from the options below.

(Options)

1. All or the majority of the value is preserved semi-permanently
2. There is both a part that preserves its value semi-permanently and a part that does not
3. There is no part that preserves its value semi-permanently
4. Unsure

Table 2-15 Characteristics of Goodwill as an Asset

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. All or the majority of the value is preserved semi-permanently	5	1.12	3	1.24
2. There is both a part that preserves its value semi-permanently and a part that does not	191	42.92	104	43.15
3. There is no part that preserves its value semi-permanently	208	46.74	116	48.13
4. Unsure	41	9.21	18	7.47
Total	445	100	241	100

✓ Most (about 90%) selected the answers “There is both a part that preserves its value semi-permanently and a part that does not” and “There is no part that preserves its value semi-permanently,” and roughly the same number of respondents chose each of these options.

- ✓ Additionally, as in Q1, even considering the “presence/absence of goodwill,” “differences between research subjects (Keidanren-affiliated companies/companies not affiliated with Keidanren),” and “industry type (manufacturing/non-manufacturing),” there were no significant differences in the trends mentioned above.
- ✓ Among the respondents that chose option 1 or 2, there is a possibility that they assumed that a brand is goodwill. Japanese accounting standards include brands under goodwill[52]; however, under IFRS, the difference between the acquisition consideration and the current value of the acquired company’s net assets is further allocated to intangible fixed assets such as brand value, client list, etc., and the remaining amount is recorded as goodwill. There is a possibility that the respondents answered without this assumption.

Components of Goodwill

In this survey, if the answer chosen is “All or the majority of the value is preserved semi-permanently,” or “There is both a part that preserves its value permanently and a part that does not,” the following two additional questions are asked. [53] There are many points that remain unclear regarding how the characteristics of goodwill or components of goodwill are considered in terms of an asset, and these questions and the follow-up questions are positioned as questions that emphasize the heuristic aspect.

(Q2-1) The following is a list of items that are considered components of goodwill. Please select one that applies to each of the following items. (Select one for each of the following, 1＝Amortized, 2 ＝Generally amortized, 3 =Generally is not amortized, 4 =Is not amortized, 5 =Unsure, 6 =It is not a component of goodwill)

(Components addressed in this survey)

1. Brand
2. Sales know-how
3. Proprietary technology

[52] Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, 2013), on page 370, (“6. The treatment of so-called brands”), it is stated that, “in some cases, brands are explained by separating them into products/brands and corporate brands (the brand of a company or a company’s entire business). In both cases, they are often thought to meet the requirements of legal rights as trademark rights or trade names, however, to be recognized as an intangible asset, its independent value must be reasonably calculable. Of these, in the case of a corporate brand, it is usually difficult to record as an intangible asset because it is inextricably linked to the company or business, but when allocating acquisition costs as an intangible asset, it is possible to calculate the reasonable value of a corporate brand independent of the business, and it is necessary to keep in mind whether separation is possible.” Discerning brand from goodwill at the time of a business combination is not completely excluded, which indicates that there are cases in which a brand can be separately identified.

[53] In addition, for these questions, the answers are only included in the aggregate when there is a response to each item listed, 1 through 6; if even one has no response, then the answer is excluded. Also, if there is an error in the response (e.g., if there is an answer given for Q2-1 regardless of the fact that 3 or 4 was selected for Q2), this is treated as an invalid response. Furthermore, the web form is set up to guide the respondent to the next questions that should be answered, therefore these issues do not occur. However, for responses collected using the paper-based questionnaire form, there were invalid responses of the type mentioned above.

4. Business model
5. Human resources
6. Site-specific conditions

Table 2-16 Components of Goodwill

Panel A（Brand）

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Amortized	8	4.08	5	4.67
2. Generally amortized	60	30.61	33	30.84
3. Generally is not amortized	84	42.86	45	42.06
4. Is not amortized	29	14.8	16	14.95
5. Unsure	9	4.59	4	3.74
6. It is not a component of goodwill	6	3.06	4	3.74
Total	196	100	107	100

Panel B（Sales know-how）

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Amortized	27	13.78	19	17.76
2. Generally amortized	98	50	47	43.93
3. Generally is not amortized	47	23.98	28	26.17
4. Is not amortized	14	7.14	7	6.54
5. Unsure	2	1.02	1	0.93
6. It is not a component of goodwill	8	4.08	5	4.67
Total	196	100	107	100

Panel C（Proprietary technology）

	Entire sample	Companies that have recorded goodwill

	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Amortized	34	17.35	23	21.5
2. Generally amortized	103	52.55	52	48.6
3. Generally is not amortized	38	19.39	23	21.5
4. Is not amortized	12	6.12	3	2.8
5. Unsure	5	2.55	3	2.8
6. It is not a component of goodwill	4	2.04	3	2.8
Total	196	100	107	100

Panel D（Business model）

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Amortized	36	18.37	23	21.5
2. Generally amortized	103	52.55	55	51.4
3. Generally is not amortized	33	16.84	19	17.76
4. Is not amortized	10	5.1	4	3.74
5. Unsure	6	3.06	2	1.87
6. It is not a component of goodwill	8	4.08	4	3.74
Total	196	100	107	100

Panel E（Human resources）

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Amortized	35	17.86	20	18.69
2. Generally amortized	72	36.73	44	41.12
3. Generally is not amortized	40	20.41	23	21.5
4. Is not amortized	16	8.16	9	8.41
5. Unsure	18	9.18	6	5.61
6. It is not a component of goodwill	15	7.65	5	4.67
Total	196	100	107	100

Panel F（Site-specific conditions）

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Amortized	10	5.1	6	5.61
2. Generally amortized	46	23.47	27	25.23
3. Generally is not amortized	68	34.69	41	38.32
4. Is not amortized	18	9.18	12	11.21
5. Unsure	21	10.71	5	4.67
6. It is not a component of goodwill	33	16.84	16	14.95
Total	196	100	107	100

- ✓ There were variations in the results for “Amortized/Generally amortized” and “Generally is not amortized/Is not amortized,” regarding the components that were addressed as a whole.
- ✓ For the components that were listed, there was a higher proportion of the response “Generally is not amortized/Is not amortized,” than of “Amortized/Generally amortized” only for “Brand” (Panel A) and “Site-specific conditions” [54] (Panel F). (Results were for the entire sample and for businesses that record goodwill, so there was no change there.)
- ✓ On the other hand, for the components that were listed, there was a higher proportion for the answer “Amortized/Generally amortized” compared to “Generally is not amortized/is not amortized,” for the remaining items: “Sales know-how” (Panel B), “Proprietary technology” (Panel C), “Business model” (Panel D), and “Human resources” (Panel E).
- ✓ Regarding “Brand,” “Generally is not amortized/Is not amortized” outweighed “Amortized/Generally amortized,” but it is interesting to note that the opposite is true for the components “Sales know-how,” “Proprietary technology,” and “Business model.”

A possible interpretation of these results is that there are many respondents who believe that once a company has been established, the brand does not amortize easily, and most respondents believe it is difficult to maintain value over the long-term for know-how, technology, and business model.

Next, the following questions were asked in a freeform format regarding components considered to

[54] Site-specific conditions assume that certain locations can generate excess profitability, such as owning a store that faces a station, a street with a large amount of pedestrian traffic, a factory near a port, or pickles that are “from Kyoto.”

constitute goodwill, other than those listed in (Q2-1).

(Q2-2) If there are any components considered to constitute goodwill, other than those listed in Q2-1, please write them below.

There were 20 answers and the following are some examples.

- ➢ Customer/client
- ➢ Rights-related (such as commercial rights or patent)
- ➢ Business contracts
- ➢ Corporate philosophy and the know-how to execute the company philosophy

- ✓ The most common response was "(the acquired company's) customers/clients." Also, there were several responses that explicitly cite synergy with the acquired company. [55]
- ✓ In addition, it was pointed out in the freeform answer that for the items listed in the previous question, Q2-1, whether an item is "Amortized" or "Is not amortized" is not something that can be determined mechanically or simplistically. Also, one comment stated that nothing exists that absolutely is "Amortized" or "Not amortized," and that it is strange to assume that something would amortize automatically.
- ✓ Furthermore, depending on the industry, some of the components listed in Q2-1 can be calculated as part of identifiable intangible assets, and it was pointed out that in such cases, these would not be included as a component of goodwill.
- ✓

II-5. Alternative Accounting Treatment for Goodwill (Part 1)

This survey not only addresses the issue of whether "impairment only (non-amortization)" and "regular amortization + impairment" are preferable for accounting treatment after goodwill has been acquired, as recognized under Japanese accounting standards and international accounting standards (assuming IFRS and U.S. GAAP); respondents were also asked questions about which accounting treatment would be best given other possibilities (options). Specifically, as stated in the following questions, the question was asked again, this time including the two treatment methods mentioned above (when completely discretionary, and depending on the conditions; the two treatments are used separately) as options for the answer.

(Q3) The following methods could be considered as accounting treatments after goodwill is acquired, instead of only recognizing either "impairment only (non-amortization)" or "regular amortization + impairment."

・A method that recognizes discretionary selection of "impairment only (non-amortization)" or

[55] Synergy related mainly to the items listed in the previous question, and it was determined that it would be difficult to list it explicitly; however, there were responses that pointed out in some way that "synergy" is a component of goodwill.

"regular amortization + impairment"

・A method in which goodwill that meets certain conditions (e.g., it can be proved that goodwill does not amortize semi-permanently, etc.) for each acquisition deal is not amortized, and for any other conditions, it is amortized regularly.

Taking into account the above methods, please choose one accounting treatment option that is best suited for your company.

(Options) [56]

1. Impairment only (non-amortization)
2. Regular amortization + impairment
3. Discretionary selection of "impairment only (non-amortization)" or "regular amortization + impairment"
4. Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly

Table 2-17 Preferable accounting treatment methods when other possibilities are considered

		Entire sample		Companies that have recorded goodwill	
		Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1.	Impairment only (non-amortization)	50	11.26	25	10.37
2.	Regular amortization + impairment	261	58.78	149	61.83
3.	Discretionary selection of "impairment only (non-amortization)" or "regular amortization + impairment"	67	15.09	34	14.11
4.	Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly	66	14.86	33	13.69
	Total	444	100	241	100

✓ Even if another possibility is taken into consideration as an accounting method after acquiring goodwill, respondents who selected option 2 "Regular amortization + impairment" were the most common, making up 58.78% of the entire sample, and 61.83% of companies that record goodwill.

[56] In this question, an option such as "any are acceptable," was not provided.

In this question, the option “any are acceptable,” which was included in Q1, was not offered, so it is not possible to make a simple comparison. However, compared to Q1, there was a smaller proportion of respondents who chose “regular amortization + impairment.”

- ✓ In addition, option 1 “Impairment only (non-amortization)” was 11.26% of the entire sample and 10.37% for companies that record goodwill. Similar to option 2 “Regular amortization + impairment,” compared to Q1, the proportion of respondents who selected this option was smaller.
- ✓ However, companies that have actually adopted “non-amortized + impairment,” are responding to the question after considering and comparing their preferences for the other options, and similarly, companies that have adopted “regular amortization + impairment” have considered and compared their preferences for the other options; thus, it should be noted that there are some difficulties in how this can be interpreted.
- ✓ By providing the options 3 “Discretionary selection of ‘impairment only (non-amortization)’ or ‘regular amortization + impairment’” and option 4 “Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly,” it was evident that some respondents thought these options were preferable.
- ✓ The number of respondents who chose option 3 “Discretionary selection of ‘impairment only (non-amortization)’ or ‘regular amortization + impairment,’” as their preferred treatment represented 15.09% of the entire sample and 14.11% of companies that record goodwill. For option 4 “Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly,” 14.86% of the entire sample and 13.69% of companies that record goodwill preferred this option.
- ✓ The fact that most respondents chose “regular amortization + impairment” is consistent with the results of the previous questions in this survey. However, the characteristics of goodwill (the perspective of some that there is a part that does not amortize, or doubts about the assumption that it amortizes over time, etc.), suggest it may be better (to a certain degree) to choose between “impairment treatment only” and “amortization + impairment” (of course, there is also a possibility that this reflects the desire to increase the amount of company discretion). On the other hand, the reason there was not a relatively large proportion of companies that desired the discretion offered in option 3 is that while either “impairment only (non-amortization)” or “regular amortization + impairment” is fine, perhaps the financial statement preparer wanted a rule one way or another regarding this.

Here, as in Q1, companies were categorized into “Keidanren-affiliated/not affiliated with Keidanren” and “manufacturing/non-manufacturing,” to confirm whether there were any differences in the response trends.

Table 2-18 Results for Q3 when categorized as Keidanren-affiliated/not affiliated with Keidanren

[Options]: 1 = "Impairment only (non-amortization)," 2 ="Regular amortization + impairment," 3 ="Discretionary selection of 'impairment only (non-amortization)' or 'regular amortization + impairment'," 4 = "Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly."

Panel A Entire sample (top row: number of respondents, bottom row: percentage (%))

	1	2	3	4	Total
Keidanren-affiliated	27	171	31	35	264
	10.23	64.77	11.74	13.26	100
Not affiliated with Keidanren	23	90	36	31	180
	12.78	50	20	17.22	100
Total	50	261	67	66	444
	11.26	58.78	15.09	14.86	100

$\chi2$=10.5596, p-value=0.014

Panel B Companies that have recorded goodwill (top row: number of respondents, bottom row: percentage (%))

	1	2	3	4	Total
Keidanren-affiliated	16	98	15	16	145
	11.03	67.59	10.34	11.03	100
Not affiliated with Keidanren	9	51	19	17	96
	9.38	53.13	19.79	17.71	100
Total	25	149	34	33	241
	10.37	61.83	14.11	13.69	100

$\chi2$= 7.6395, p-value=0.054

Table 2-19 Results for Q3 when categorized as manufacturing/non-manufacturing

[Options]: 1 = "Impairment only (non-amortization)," 2 ="Regular amortization + impairment," 3 ="Discretionary selection of 'impairment only (non-amortization)' or 'regular amortization + impairment'," 4 = "Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly."

Panel A Entire sample (top row: number of respondents, bottom row: percentage (%))

	1	2	3	4	Total

Manufacturing	18	117	19	20	174
	10.34	67.24	10.92	11.49	100
Non-manufacturing	29	126	44	39	238
	12.18	52.94	18.49	16.39	100
Unknown	3	18	4	7	32
	9.38	56.25	12.5	21.88	100
Total	50	261	67	66	444
	11.26	58.78	15.09	14.86	100

χ2=10.6722, p-value=0.099

Fischer's exact=0.096

Panel B Companies that have recorded goodwill (top row: number of respondents, bottom row: percentage (%))

	1	2	3	4	Total
Manufacturing	11	71	12	10	104
	10.58	68.27	11.54	9.62	100
Non-manufacturing	14	78	21	23	136
	10.29	57.35	15.44	16.91	100
Unknown	0	0	1	0	1
	0	0	100	0	100
Total	25	149	34	33	241
	10.37	61.83	14.11	13.69	100

χ2=10.1816, p-value=0.117

Fischer's exact=0.152

- ✓ According to the results in Table 2-18, when categorized by "Keidanren-affiliated/Not affiliated with Keidanren," among the "Keidanren-affiliated" group, the proportion that chose "Regular amortization + impairment" as preferred was larger than that in the group "Not affiliated with Keidanren." In the group "Not affiliated with Keidanren," there was clearly a higher percentage that chose "Discretionary selection of 'Impairment only (non-amortization)' or 'Regular amortization + impairment'," compared with the "Keidanren-affiliated group."
- ✓ Comparing manufacturing to non-manufacturing, according to the results shown in Table 2-19, the proportion that chose "Regular amortization + impairment" was higher in the manufacturing industry, compared to non-manufacturing. In non-manufacturing, there was clearly a higher percentage that chose "Discretionary selection of 'Impairment only (non-amortization)' or "Regular amortization + impairment'," and "Goodwill that meets certain conditions for each

acquisition deal is not amortized, and anything else is amortized regularly." The manufacturing industry has more tangible fixed assets, while non-manufacturing has comparatively more intangible components. Some intangible assets are "components that are considered to not necessarily amortize over a long period, while it may not be possible to identify them" (in this survey, brand value is one such candidate). Non-manufacturing respondents may think, depending on the case, that there may be items for which it would be better "not to amortize and apply impairment treatment."

II-6. Alternative Accounting Treatment for Goodwill (Part 2)

Thus far in this survey, the investigation has focused on two accounting methods: "impairment only (non-amortization)" and "regular amortization + impairment," but there are logically other probable accounting treatments that exist, such as treatments used in the past. Therefore, a question was asked regarding whether there were other accounting treatments preferable to the two methods that are currently being debated.

(Q4) There are several accounting methods other than "impairment only (non-amortization)" and "regular amortization + impairment" that could theoretically be considered after acquiring goodwill. Please share your opinion on the following accounting treatment methods for acquired goodwill. (Options: 1 = "Preferable," 2 = "Somewhat preferable," 3 = "Somewhat undesirable," 4 = "Undesirable," and 5 = "Unsure")

1. No amortization and no impairment treatment (acquisition cost as is)
2. Regular amortization without impairment treatment
3. Continual revaluation based on fair value (the difference in value is included in the profit and loss calculation)
4. Immediate charge to earnings
5. Immediate charge to equity

Table 2-20 Accounting treatments currently being discussed compared to potential alternatives

Panel A No amortization and no impairment treatment (acquisition cost as is)

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Preferable	24	5.41	14	5.83
2. Somewhat preferable	22	4.95	9	3.75

3. Somewhat undesirable	124	27.93	57	23.75
4. Undesirable	255	57.43	152	63.33
5. Unsure	19	4.28	8	3.33
Total	444	100	240	100

Panel B Regular amortization without impairment treatment

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Preferable	36	8.11	18	7.5
2. Somewhat preferable	119	26.8	60	25
3. Somewhat undesirable	151	34.01	85	35.42
4. Undesirable	119	26.8	70	29.17
5. Unsure	19	4.28	7	2.92
Total	444	100	240	100

Panel C Continual revaluation based on fair value (the difference in value is included in the profit and loss calculation)

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Preferable	14	3.15	6	2.5
2. Somewhat preferable	70	15.77	39	16.25
3. Somewhat undesirable	145	32.66	72	30
4. Undesirable	180	40.54	109	45.42
5. Unsure	35	7.88	14	5.83
Total	444	100	240	100

Panel D Immediate charge to earnings

	Entire sample		Companies that have recorded goodwill	

	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Preferable	11	2.48	5	2.08
2. Somewhat preferable	44	9.91	20	8.33
3. Somewhat undesirable	129	29.05	64	26.67
4. Undesirable	235	52.93	139	57.92
5. Unsure	25	5.63	12	5
Total	444	100	240	100

Panel E Immediate charge to equity

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. Preferable	14	3.15	6	2.5
2. Somewhat preferable	68	15.32	42	17.5
3. Somewhat undesirable	113	25.45	56	23.33
4. Undesirable	168	37.84	99	41.25
5. Unsure	81	18.24	37	15.42
Total	444	100	240	100

- ✓ When interpreting this question, as with Q3, companies that have adopted “Non-amortized + impairment” consider whether the other options are preferred compared with this treatment, and companies that have adopted “regular amortization + impairment,” consider whether the other options are preferred compared with that treatment. Thus, it should be noted that there are some difficulties in how this has been interpreted.
- ✓ Compared with the conventional methods of “impairment only (non-amortized)” and “regular amortization + impairment,” the alternative accounting treatment methods listed in Q4 are considered to be 4) “Undesirable” or 3) “Somewhat undesirable.”
- ✓ Among these, the response rate for “Preferable/Somewhat preferable” was highest for “Regular amortization without impairment treatment” (34.91% for the entire sample and 32.5% among companies that record goodwill) in Panel B (the ratios for the corresponding options were below 20%).
- ✓ It is interesting to note that many responded “Somewhat undesirable/Undesirable” for “No amortization and no impairment treatment (acquisition cost as is)” (Panel A), and “Regular

amortization without impairment treatment" (Panel B). The proportions were 85.36% of the entire sample and 87.08% among companies that record goodwill for the former, and 60.81% of the entire sample and 64.59% among companies that record goodwill for the latter.

- ✓ For the latter group in particular, although a certain proportion of respondents think the method of regularly allocating expenses and avoiding impairment treatment (for some reason) for assets such as goodwill is preferable to the current method, it may be interpreted that more respondents think the impairment treatment itself is necessary.
- ✓ Panel E's treatment, "Immediate charge to equity," was formerly used in the UK. It is possible that respondents did not understand this properly; however, a higher proportion of respondents chose "Preferable/Somewhat preferable," in comparison with Panel D, "Immediate charge to earnings."
- ✓ It should be noted that the method stated in Panel D causes various stakeholders to bear the impairment loss, while Panel E's method means that shareholders bear the impairment loss.

II-7. The Impact on Corporate Activity of Disclosure and Accounting Treatment Related to Goodwill

From here, the questions move away from the issue of the accounting treatment for goodwill itself, and the following questions asked about the impact of goodwill and related disclosure information (specifically, disclosure of net assets after deducting goodwill)[57] on the recognition of goodwill impairment losses and whether accounting for goodwill affects the company's substantive actions (here, making M & A decisions). For example, disclosure of net worth after deducting goodwill means the net worth of an entity with a large unamortized balance of goodwill would be reduced, the equity ratio would be discounted, and (if there is any doubt about whether goodwill is an asset) might also lead to the disclosure of excess debt. These questions are intended to confirm the understanding of financial statement preparers.

Impact of Disclosure of Net Asset Amount after Deducting Goodwill

(Q5) Currently, there are concerns that goodwill impairment losses are not being recorded at the appropriate time.

Therefore, so that recording of goodwill impairment losses is timelier, an idea has been proposed to request disclosure of the net asset amount after deducting goodwill (=net asset amount – goodwill balance). Do you think asking for disclosure of net assets after deducting goodwill will encourage more timely recording of goodwill impairment losses? Choose one answer that applies from the

[57] According to the ASAF meeting materials ("December 2018 Accounting Standards Advisory Forum (ASAF) Summary of Proceedings," p.39, ¶47), it is pointed out that Mr. Hoogervorst emphasized this point because there were companies that did not individually display goodwill among intangible assets, with a case of a bankrupt company in the U.K. as an example. The opinion was that information stating that tangible fixed assets alone could lead to debt could be useful information for financial statement users.

options below. (Options: 1 = "It will encourage more timely recording of impairment loss," 2 = "If anything, it would somewhat encourage more timely recording of impairment loss," 3 = If anything, it would not encourage more timely recording of impairment loss," 4 = "It will not encourage more timely recording of impairment loss," 5 = "Unsure")

Table 2-21 Does disclosure of net assets after deducting goodwill impact the timing of impairment loss recognition?

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. It will encourage more timely recording of impairment loss	18	4.03	11	4.56
2. If anything, it would somewhat encourage more timely recording of impairment loss	94	21.03	48	19.92
3. If anything, it would not encourage more timely recording of impairment loss	108	24.16	60	24.9
4. It will not encourage more timely recording of impairment loss	157	35.12	96	39.83
5. Unsure	70	15.66	26	10.79
Total	447	100	241	100

✓ The proportion of respondents who stated that disclosure of net assets after deducting goodwill "will encourage more timely recording of impairment loss" or responded "If anything, it would somewhat encourage more timely recording of impairment loss" was 25.06% for the entire sample, and 24.48% for companies that record goodwill, showing that a certain number agree. However, many seem to think that the possibility is low that it would encourage recognition of impairment loss (however, it must be noted that a certain number also responded "Unsure").

Impact of Accounting Treatment of Goodwill on M&A

As mentioned in section I, one important issue in considering the impact of accounting rules on company actions is whether the accounting treatment of goodwill potentially affects M&A. In this survey, questions about the type of impact accounting treatment of goodwill might have were temporarily set aside and the following questions asked only about whether it is possible there would be an impact on M&A decisions.

(Q6) Do you think regular amortization or non-amortization of goodwill has an impact on your company's decisions regarding mergers and acquisitions (M&A)? Choose one answer that applies from the options below.
(Options)
1. There is a high possibility that there is an impact
2. If anything, there is a high possibility that there is an impact
3. If anything, there is a low possibility that there is an impact
4. There is a low possibility that there is an impact
5. Unsure

Table 2-22 Impact of Accounting Treatment of Goodwill on M&A Decisions

	Entire sample		Companies that have recorded goodwill	
	Number of respondents	Percentage [%]	Number of respondents	Percentage [%]
1. There is a high possibility that there is an impact	88	19.69	55	22.82
2. If anything, there is a high possibility that there is an impact	163	36.47	90	37.34
3. If anything, there is a low possibility that there is an impact	120	26.85	66	27.39
4. There is a low possibility that there is an impact	59	13.2	28	11.62
5. Unsure	17	3.8	2	0.83
Total	447	100	241	100

- ✓ Respondents who answered that, regarding accounting treatment of goodwill, "There is a high possibility that there is an impact" on M&A decisions comprised 19.69% of the entire sample and 22.82% of companies that record goodwill. Additionally, 36.47% of the entire sample and 37.34% of companies that record goodwill responded "If anything, there is a high possibility that there is an impact."
- ✓ However, the combined proportion of respondents who answered that there is a low possibility the accounting treatment of goodwill would impact M&A for 3) "If anything, there is a low possibility that there is an impact," and 4) "There is a low possibility that there is an impact," was not small. It is conceivable that the difference in the responses shows the impact of accounting figures on investment decisions within a company.

II-8. Conclusion

Section II provided an overview of the tabulated results of the "Survey on the Accounting Treatment of Goodwill," conducted for financial statement preparers. When asked about their preference between "impairment only (non-amortization)/regular amortization + impairment" in Q1, about 70% of companies responded that "regular amortization + impairment" was preferable. This trend was also confirmed when the entire sample was divided into sub-samples of "Keidanren-affiliated companies/companies not affiliated with Keidanren" and "manufacturing/non-manufacturing." Q1-1 and Q1-3 asked about the reasons different accounting treatment methods were preferable, and among the reasons for choosing "impairment only (non-amortization)," the item with the highest approval rate was "if there is an appropriate impairment test, there is no need for regular amortization." On the other hand, the item with the highest approval rate among the reasons for choosing "regular amortization + impairment" was "to match revenue with appropriate period allocation (return on investment calculation)."

As for the amortization period for goodwill, many respondents said it is better to set an upper limit with regard to length of time and leave a certain level of discretion to the company, rather than defining a uniform amortization period for all companies; many respondents also said that the upper limit of that term should be 20 years. In addition, as a result of asking about "possible accounting treatments" other than the existing "impairment treatment only (non-amortization)" and "regular amortization + impairment," although the approval rating for "Regular amortization without impairment treatment" was higher than the other options, the disapproval ratings were high for all (accounting treatment) options, and furthermore, it emerged that this does not mean impairment treatment is unnecessary.

In terms of understanding the tabulated survey results, it was not possible to eliminate some of the possibilities for respondents' answer choices, such as the accounting standards assumed by the respondents and their definition of goodwill (whether brand is included), which limit our interpretations. These are identified in the explanations of the tabulated results.

Attribute information (scale, recorded amount of goodwill, accounting standards adopted, etc.) of the responding companies was also collected, and in the future, additional analysis such as cross tabulation (relationship between the adopted accounting standard and the selected response/ relationship between the amount of goodwill recorded and the selected response) and the relationship with responding companies' financial data will be added; acquiring this additional information will be an issue for future research.

III Survey evidence on users

III-1. Introduction

In this section, we explain the results of the survey for users (in our research, almost all users are security analysts). We received all responses through the web-based form. As already explained, this part of the survey research was conducted with the cooperation of the SAAJ. Our survey research for users started on July 24, 2018 and ended on October 20, 2018.

Our sample in Section III consists of the members of the SAAJ who are analysts that actively engage in security analysis, and the members of the international accounting professions network of the FASFA (but only those who are financial statement users). There many members of the SAAJ who are registered as security analysts but do not actively engage in security analysis and writing analyst reports. However, our survey was limited to analysts who indeed engage in security analysis using accounting and non-accounting information. We received 130 responses of 673 users (the response rate is 19.32%).[58]

Although the questions for users are basically the same as those used for preparers, we asked users several additional questions, such as how goodwill amortization expense is used in security analysis.

III-2. Sample characteristics

We requested that respondents answer several questions about themselves, such as their career and position, prior to asking our main questions about accounting for acquired goodwill. We summarize the sample characteristics based on their responses below.

On the number of years of experience working as an analyst

Table 3-1 Years of Experience Working as an Analyst

	N	Mean	S.D.	Min	p25	p50	p75	Max
Years of experience	130	16.71	7.88	1.33	10.08	17	22	35.33

On their position as an analyst

Table 3-2 Position as an Analyst

	Number of respondents	Percentage [%]
Sell-side analyst	78	60.0
Buy-side analyst	35	26.9
Buy-side and fund manager	12	9.2

[58] When requesting users to respond to our survey, Makoto Kaimasu, a member of the board of directors of the Securities Analysts Association of Japan (SAAJ), sent an e-mail to each member of the SAAJ asking for his or her cooperation. We would like to thank him for his support. The e-mail was sent to (1) committee members of the disclosure research group of the SAAJ, (2) expert subcommittee members by industry of the disclosure research group of the SAAJ, (3) participants in the "Award for Excellence in Corporate disclosure," which included 645 active security analysts, 6 full-time managers of the disclosure research group of the SAAJ, and 22 members of the international accounting professions network of the FASFA. (In fact, there were 26 in the international accounting professions network. However, because four members of overlapped with the active analyst or full-time manager groups, we excluded those four members from the members of the international professions network.)

Others (e.g. manager)	5	3.8
Total	130	100

On the industries the respondents cover

Table 3-3 Distribution of Industries Covered by Respondents

	Industry	N	%		Industry	N	%
1	Fishery, Agriculture & Forestry	9	1.7%	18	Precision Instruments	18	3.4%
2	Mining	6	1.1%	19	Other Products	17	3.2%
3	Construction	17	3.2%	20	Electric Power and Gas	12	2.2%
4	Foods	14	2.6%	21	Land Transportation	16	3.0%
5	Transportation & Equipment	12	2.2%	22	Marine Transportation	15	2.8%
6	Pulp and Paper	10	1.9%	23	Air Transportation	14	2.6%
7	Chemical	26	4.9%	24	Warehousing & Harbor Transportation	14	2.6%
8	Pharmaceutical	19	3.5%	25	Information & Communication	27	5.0%
9	Oil and Coal Products	8	1.5%	26	Wholesale Trade	16	3.0%
10	Rubber Products	9	1.7%	27	Retail Trade	21	3.9%
11	Glass and Ceramics Products	16	3.0%	28	Banks	13	2.4%
12	Iron and Steel	16	3.0%	29	Securities and Commodities Futures	12	2.2%
13	Nonferrous Metals	17	3.2%	30	Insurance	13	2.4%
14	Metal Products	15	2.8%	31	Other Financing Business	16	3.0%
15	Machinery	21	3.9%	32	Real Estate	16	3.0%
16	Electric Appliances	35	6.5%	33	Services	29	5.4%
17	Transportation Equipment	17	3.2%		Total	536	100

Table 3-1 shows the respondents' number of years of experience as an analyst. The mean and median are both nearly 17 years, and the 25th percentile is more than 10 years.

Next, Table 3-2 shows the distribution of the respondents' positions as analysts. All respondents are equity analysts; our sample does not include any credit analysts. 60% of the 130 respondents are sell-side analysts and 36.1% are buy-side analysts.

Finally, Table 3-3 indicates the distribution of industries covered by respondents. Our sample does not have a specific bias in the distribution of industries covered. Moreover, it should be noted that one respondent selected all industries because he/she could not specify the industries he/she covered. [59]

[59] In this survey, we allowed users to select multiple industries as industries they covered.

III-3 On the accounting treatment for acquired goodwill

"Impairment-only approach (non-amortized)" versus "regular amortization + impairment approach"

The first question (Q1) is the most important for our survey research. We asked users to identify which approach they think is better: the impairment-only approach (non-amortized) or regular amortization + impairment approach. Moreover, like the survey for preparers, we added "Either" as a third option because some users might think either approach is fine.

> (Q1) When a unified approach to the accounting treatment for acquired goodwill is required, which approach do you think would be better for yourself, "impairment only" or "regular amortization + impairment"? (Options: (a) impairment only (non-amortized), (b) regular amortization + impairment, and (c) Either)

Table 3-4 Desirability of the Impairment-only Approach or Amortization and Impairment Approach

	Number of respondents	Percentage [%]
Impairment only (non-amortization)	26	20.0
Regular amortization + impairment	81	62.3
Either	23	17.7
Total	130	100

- ✓ Table 3-4 shows that the percentage of respondents who chose "Impairment only (non-amortization)" is lower compared to the results for preparers, but the percentages of respondents who chose "Impairment only (non-amortization)" and "Either" are higher.
- ✓ However, it is interesting that more than 60% of respondents considered that the "regular amortization + impairment" is better. Of course, it should be noted that a non-trivial portion of respondents supported "Impairment only (non-amortization)" or "Either."
- ✓ When analyzing securities, analysts who weight EBITDA or cash flows from operations more heavily might especially choose "Either."

Additional questions to the respondents supporting the "impairment only (non-amortization)"

In our research, based on the response to Q1, we asked respondents (other than those who chose "Either") to answer additional questions about why they chose that option and other related questions. First, we present the additional questions for the 26 respondents who supported the "impairment only (non-amortization)" and then explain their responses below.

(Q1-1) To what extent do you agree on the following reasons that "impairment only (non-amortization)" is more desirable? (Options: 1 = "Yes," 2 = "Rather yes," 3 = "Rather no," 4 = "No," 5 = "Unsure").

1. It is hard to estimate the useful life and depreciation pattern of the carrying amount of goodwill.
2. The value of goodwill is maintained by company efforts after it is acquired.
3. Goodwill amortization expense and the carrying amount of goodwill after amortization are not useful for financial statement users.
4. If an appropriate impairment test is conducted, regular amortization of goodwill is not needed.
5. It reduces comparability with firms that are not required to amortize goodwill.
6. Amortizing goodwill weakens the signaling effect of goodwill impairment.

Table 3-5 Reasons for Support of "Impairment only (non-amortization)"

Panel A: It is hard to estimate the useful life and depreciation pattern of the carrying amount of goodwill.

	1	2	3	4	5	Total
N	9	14	0	3	0	26
%	34.62	53.85	0	11.54	0	100

Panel B: The value of goodwill is maintained by company efforts after it is acquired.

	1	2	3	4	5	Total
N	10	13	0	1	2	26
%	38.46	50	0	3.85	7.69	100

Panel C: Goodwill amortization expense and the carrying amount of goodwill after amortization are not useful for financial statement users.

	1	2	3	4	5	Total
N	6	2	8	8	2	26
%	23.08	7.69	30.77	30.77	7.69	100

Panel D: If an appropriate impairment test is conducted, regular amortization of goodwill is not needed.

	1	2	3	4	5	Total
N	18	7	1	0	0	26
%	69.23	26.92	3.85	0	0	100

Panel E: It reduces comparability with firms that are not required to amortize goodwill.

	1	2	3	4	5	Total
N	13	9	2	2	0	26
%	50	34.62	7.69	7.69	0	100

Panel F: Amortizing goodwill weakens the signaling effect of goodwill impairment.

	1	2	3	4	5	Total
N	3	7	7	5	4	26
%	11.54	26.92	26.92	19.23	15.38	100

- ✓ For the first reason. "It is hard to estimate the useful life and depreciation pattern of the carrying amount of goodwill" (Panel A), the percentage of respondents who chose "Yes" or "Rather yes" is 88.46%. This result indicates that the respondents who think the "impairment only (non-amortization)" is better strongly support this reason. Moreover, the result is similar to the preparer results (84.72% for the entire sample and 86.84% for the non-zero goodwill firms). This result shows that this reason was recognized by both preparers and users as important to support the "impairment only (non-amortization)".
- ✓ Similarly, the second reason, "The value of goodwill is maintained by company efforts after it is acquired" (Panel B), is also supported: 88.46% of respondents answered "Yes" or "Rather yes."
- ✓ For the third reason, "Goodwill amortization expense and the carrying amount of goodwill after amortization are not useful for financial statement users" (Panel C), only 30.77% of the respondents answered "Yes" or "Rather yes." This indicates that most of the respondents do not necessarily think the impairment-only approach is better because goodwill amortization expense and the carrying amount of goodwill after periodic amortization are not useful.
- ✓ For the fourth reason, "If an appropriate impairment test is conducted, regular amortization of goodwill is not needed" (Panel D), 96.15% of the respondents answered "Yes" or "Rather yes." This result shows that most respondents regarded impairment tests as important.
- ✓ For the fifth reason, "It reduces comparability with firms that are not required to amortize goodwill" (Panel E), 84.62% of the respondents answered "Yes" or "Rather yes." This result indicates that most respondents recognized the viewpoint of comparability as also important. It can be interpreted that they might think "impairment only (non-amortization)" should be required because there are firms that are required to amortize goodwill and firms that do not have this requirement; further, non-amortization of goodwill is internationally mainstreamed.
- ✓ Finally, the responses to "Amortizing goodwill weakens the signaling effect of goodwill impairment" (Panel F), vary widely among the respondents. Only 38.46% chose "Yes" or "Rather yes."[60] Moreover, it should be noted that 15.38% of respondents answered "Unsure."[61]

Because it is possible that the respondents might have other reasons why the "impairment only (non-

[60] Although IASB argues that allowing regular amortization of goodwill would weaken the signaling effect of goodwill impairment (for example, based on Chalmers et al. (2001)), the responses in our survey vary and do not support the reason in Panel F as strongly as the IASB argues.
[61] For example, it is possible that the respondents did not know the meaning of "signaling effect."

amortization)" was better, we asked the respondents who supported this approach to answer the following question.

(Q1-2) If you have any reasons why you think the "impairment only (non-amortization)" is more desirable, other those mentioned in Q1-1, please describe them below.

We received three responses in total. The summary is as follows.[62]

- ✓ One of the respondents pointed out that it made no sense to regularly amortize goodwill because goodwill impairment tests directly measure the success or failure of M&A. This same point was also found in the responses from preparers. Both preparers and users that supported the "impairment only (non-amortization)" to think the approach is more desirable for measuring the success or failure of acquisitions.
- ✓ Another respondent mentioned that it was more desirable for accounting earnings to be close to cash flows. This comment might relate to a viewpoint that earnings quality is higher when earnings include much smaller accruals that do not necessarily follow cash flows as earnings components (of course, there are opposing opinions).
- ✓ Finally, one respondent pointed out that the portion of goodwill that is recognized as an asset on the balance sheet could differ by industry. Behind this opinion, the respondent mentioned an issue of concern that M&A may appear to be more overvalued in service industries than in manufacturing industries if goodwill amortization is required because the amount of goodwill at the time of M&A tends to be larger in service industry firms than in manufacturing industries.

Additional questions to the respondents who supported "regular amortization + impairment"

Next, we asked the respondents who supported "regular amortization + goodwill" to answer the following questions about their reasons.

(Q1-3) To what extent do you agree on the following reasons that"regular amortization + impairment approach" is more desirable? (Options: 1 = "Yes," 2 = "Rather yes," 3 = "Rather no," 4 = "No," 5 = "Unsure").

1. Excess earnings power represented by goodwill gradually decreases due to market competition.
2. The carrying amount of goodwill should be allocated to appropriate periods to match revenues and expenses.
3. It is impossible to distinguish between the diminished and maintained components of goodwill value.
4. It is consistent with accounting treatments for other depreciable assets.
5. Amortization cannot be replaced by impairment.

[62] Like II, hereafter when mentioning responses to the open-ended questions, we excluded responses such as "Nothing."

6. It leads to prudent M&A decisions.
7. It reduce the cost of the goodwill impairment test.

Table 3-6 Reasons for Support of "Regular Amortization + Impairment"

Panel A: Excess earnings power represented by goodwill gradually decreases due to market competition.

	1	2	3	4	5	Total
N	31	34	7	6	3	81
%	38.27	41.98	8.64	7.41	3.7	100

Panel B: The carrying amount of goodwill should be allocated to appropriate periods to match revenues and expenses.

	1	2	3	4	5	Total
N	42	29	6	3	1	81
%	51.85	35.8	7.41	3.7	1.23	100

Panel C: It is impossible to distinguish between the diminished and maintained components of goodwill value.

	1	2	3	4	5	Total
N	21	40	12	5	3	81
%	25.93	49.38	14.81	6.17	3.7	100

Panel D: It is consistent with accounting treatments for other depreciable assets.

	1	2	3	4	5	Total
N	33	38	4	5	1	81
%	40.74	46.91	4.94	6.17	1.23	100

Panel E: Amortization cannot be replaced by impairment.

	1	2	3	4	5	Total
N	27	28	15	8	3	81
%	33.33	34.57	18.52	9.88	3.7	100

Panel F: It fosters prudent M&A decisions.

	1	2	3	4	5	Total
N	27	21	11	17	5	81
%	33.33	25.93	13.58	20.99	6.17	100

Panel G: It reduce the cost of the goodwill impairment test.

	1	2	3	4	5	Total
N	12	21	20	23	5	81

%	14.81	25.93	24.69	28.4	6.17	100

- ✓ The reasons in this question for users are same as those for preparers. First, for "Excess earnings power that goodwill represents gradually decreases due to market competition" (Panel A), 80.25% of the respondents answered "Yes" or "Rather yes." Second, 87.65% of the respondents answered "Yes" or "Rather yes" for "The carrying amount of goodwill should be allocated to appropriate periods to match revenues and expenses" (Panel B). For both the first and second reasons, the percentage of the responses "Yes" or "Rather yes" are higher. These results indicate that these are important reasons supporting "amortization + impairment" and are similar to those for preparers.
- ✓ Regarding "It is impossible to distinguish between the diminished and maintained components of goodwill value" (Panel C), the percentage of respondents who chose "Yes" or "Rather yes" is high at 75.31%. For "It is consistent with accounting treatments for other depreciable assets" (Panel D), 87.56% of the respondents chose "Yes" or "Rather yes." This percentage is also high and equivalent to that of the second reason. The percentage of respondents who answered "Yes" or "Rather yes" for either the third or fourth reasons is higher compared to the preparer results. These results indicate that both the third and fourth reasons were likely to be recognized as important support for the "regular amortization + impairment". Considering the results shown in Panel D, it appears that preparers were likely to regard goodwill as an amortizable asset and were also likely to consider it was appropriate to measure the success or failure of corporate investment decisions by using the investment-return calculation based on matching revenues and expenses from the viewpoint of financial statement user.
- ✓ With regard to "Amortization cannot be replaced by impairment" (Panel E), 67.90% of the respondents chose "Yes" or "Rather yes," is which is lower than the results of the previous other reasons (however, we note that more than half of the respondents also answered "Yes" or "Rather yes").
- ✓ For "It fosters prudent M&A decisions" (Panel F), the share of respondents who answered "Yes" or "Rather yes" is only 59.26%. This result is largely similar to the preparer results. It is difficult to interpret this result, but we can suggest the following two possibilities. First, the respondents did not consider that requiring goodwill amortization necessarily results in more prudent M&A transactions, and second, they did not necessarily regard this outcome as important support for "amortization + impairment".
- ✓ Finally, regarding "It reduces the cost of the goodwill impairment test" (Panel G), a reason that stems from the viewpoint of preparers, only 40.47% of the respondents answered "Yes" or "Rather yes." Some respondents supported "regular amortization + impairment" based on the cost of goodwill impairment, but more than half of respondents did not necessarily agree. Because

users do not bear the costs of preparing financial statements, most respondents might not feel this corresponds to a reason they support “regular amortization + impairment.” Moreover, it is also possible that some respondents considered, as long as listed companies list their stock, they ought to bear the costs of goodwill impairment (e.g., the costs of estimating a recoverable amount by business unit) and these costs do not matter in the selection of a desirable accounting method.

Next, we asked the following open-ended question about reasons the “regular amortization + impairment” is more desirable.

(Q1-4) If you have any reasons you think “regular amortization + impairment” is more desirable, other than those mentioned in Q1-3, please describe them below.

We received a total of 19 responses. The summary of the responses is as follows.

- Concerns about the use of discretion in goodwill impairments (if “impairment only (non-amortization) is required).[63]
- Concerns about giving management incentives for accounting fraud and earnings management.
- Concerns about the characteristics of goodwill as an asset (e.g., an opinion that goodwill does not represent excess earnings power but only the difference between the book value of net assets and the fair value of net assets; an opinion that goodwill does not represent excess earnings power).
- Consistency with the treatment of internally generated goodwill.
- Reducing performance and stock price volatility.
- Encouraging management teams to become more aware of the rate of return on invested capital or cost of capital.
- Making price formation in the M&A market more appropriate (related to the sixth option in Q1-3)
- From the viewpoint of comparability
- The amortization period of goodwill is a useful source of information about the period of goodwill recovery that management estimated.
- The difficulty knowing the indications of goodwill impairment.

− Some respondents answered with several issues, such as discretion in accounting for goodwill impairment from the viewpoint of financial statement users. We need to further our examination with regard to the comparability issue because some users support “impairment only (non-amortization)” to improve the comparability of financial reporting, but other users support amortization of goodwill to keep financial reporting comparable.

[63] A respondent pointed out that looking at the goodwill firms have recognized over the past 10 years, a considerable portion of it has been written-off. The respondent mentioned regular amortization was more desirable based on this observation because it could exclude preparers’ arbitrariness.

On important factors when estimating the goodwill amortization period

Following the previous question, we asked the respondents that supported "regular amortization + impairment" to indicate whether the factors we present are important.

(Q1-5) To what extent do you think the following factors are important when prepares estimates the goodwill amortization period? For each factor, please choose one of the following options (Options: 1 = "Yes," 2 = "Rather yes," 3 = "Rather no," 4 = "No," 5 = "Unsure").
1. The investment-return period based on managements' business plan.
2. The time period over which synergies are expected to be maintained.
3. Time periods over which an acquirer, on stand-alone basis, is expected to maintain higher future cash flows.
4. Useful lives of related tangible assets.
5. Useful lives of related other intangible assets.

Table 3-7 Important Factors in the Estimation of the Goodwill Amortization Period

Panel A: The investment-return period based on managements' business plan

	1	2	3	4	5	Total
N	27	35	11	6	2	81
%	33.33	43.21	13.58	7.41	2.47	100

Panel B: The time period over which synergies are expected to be maintained

	1	2	3	4	5	Total
N	11	34	23	11	2	81
%	13.58	41.98	28.4	13.58	2.47	100

Panel C: Time periods over which an acquirer, on stand-alone basis, is expected to maintain higher future cash flows

	1	2	3	4	5	Total
N	15	24	33	6	3	81
%	18.52	29.63	40.74	7.41	3.7	100

Panel D: Useful lives of related tangible assets

	1	2	3	4	5	Total
N	12	33	20	14	2	81
%	14.81	40.74	24.69	17.28	2.47	100

Panel E: Useful lives of related other intangible assets

	1	2	3	4	5	Total
N	12	34	20	11	4	81
%	14.81	41.98	24.69	13.58	4.94	100

- ✓ For "The investment-return period based on managements' business plan" (Panel A), the percentage of respondents answering "Yes" or "Rather yes" is 76.54% and higher than the other factors. In the preparers' results, only the response "Yes" reached a percentage higher than 50%. However, for users, the percentage is only around 33%. These results indicate that there may be a perception gap between preparers and users on this point.
- ✓ For "The time period over which synergies are expected to be maintained" (Panel B), only 55.56% of the respondents chose "Yes" or "Rather yes." This percentage is also low compared to the preparers' results, where the percentages are 79.21% for the entire preparer sample and 79.24% for the companies that have recognized goodwill). This result indicates that most of the respondents might consider that "The time period over which synergies are expected to be maintained" is not important when preparers determine the goodwill amortization period.
- ✓ Regarding "Time periods over which an acquirer, on stand-alone basis, is expected to maintain higher future cash flows" (Panel C), 48.15% of the respondents answered "Yes" or "Rather yes." The percentage for this factor is low compared to that of the preparers, which indicates that there is also a difference in this point's recognition between users and prepares.
- ✓ Regarding "Useful lives of related tangible assets" (Panel D) and "Useful lives of related other intangible assets" (Panel E), 55.56% and 56.79% of the respondents answered "Yes" or "Rather yes," respectively. Compared with the preparers' responses (both the entire sample and the companies that have recognized goodwill), the percentages of the respondents answering "Yes" or "Rather yes" are significantly higher.

Moreover, we requested that respondents listed any factors other than those listed in Q1-5 that they thought preparers considered when deciding the goodwill amortization period, using the following open-ended form.

(Q1-6) If you have any important factors in the estimation of the goodwill amortization period, other than those listed in Q1-5, please describe them below.

There were eight responses,[64] summarized as follows.

[64] In fact, we received 10 responses but excluded 2 responses because they are opinions about amortization methods. One response is "amortization period should be set by industry characteristics." The other response is "goodwill should be immediately written off."

- ➢ Influence on periodic profits and losses (earnings)[65]
- ➢ Achieving management goals
- ➢ Duration over which brand value is expected to be sustained
- ➢ Cases of other firms and one’s own past cases of accounting treatments

- ✓ Many responses indicate that they considered preparers thought periodic earnings and management targets when determining the goodwill amortization period. Furthermore, a respondent said, “Honestly speaking, I do not know about the factors because of the lack of disclosures about goodwill.” The respondent, however, pointed out that, at least based on their behaviors, preparers did not seem to have any clear policy.

Regarding how to prescribe the rule for the goodwill amortization period

In addition, we requested respondents who supported “regular amortization + impairment” in Q1 to answer the following question about how to prescribe the goodwill amortization period of goodwill by listing three options. Specifically, the question addresses whether the rule should give complete or partial discretion to firms or exclude arbitrariness and prescribe a uniform rule.

(Q1-7) Given t“regular amortization + impairment” is more desirable in accounting for goodwill, how do you think a requirement to determine the goodwill amortization period should be prescribed? Please choose an option that you think is the most desirable for you.
(Options)
1. An upper limit should be set for the amortization period（e.g., the rule should be prescribed in the form “Be amortized within … years ”）.
2. A uniform amortization period should be set (e.g., the rule should be prescribed in the form “Be amortized in just … years” ）.
3. No provision about the amortization period should be set.

Table 3-8 Provision About the Amortization Period

	Number of responses	Percentage [%]
1. An upper limit should be set for the amortization period.	66	81.48
2. A uniform amortization period should be set.	8	9.88

(In addition, a respondent pointed out that, if regular amortization was merely a political consideration for the financial burden of amortization expense on companies, the amortization period was just a matter of arrangement and the logic was not important.)

[65] A respondent who has advised for M&A mentioned that management determines a goodwill amortization period considering the amount of earnings after amortization, regardless of the economic reality. Furthermore, the respondent also mentioned that he or she had the impression that the more overvalued the acquisition, the longer the amortization period.

3.	No provision about the amortization period should be set.	7	8.64
Total		81	100

- ✓ Table 3-8 indicates that most respondents (81.48%) consider “An upper limit should be set for the amortization period” (Option 1) as the most desirable approach to prescribing the amortization period for goodwill. Regarding the other options, 9.98% of the respondents answered, “A uniform amortization period should be required” (Option 2), and 8.64% answered “A specific rule about the amortization period should not be required” (Option 3).
- ✓ Like the responses in Q1-4, financial statement users regard management’s choice of the amortization period (that is, management’s expectation of the time period over which the investment is recovered) as a source of information. However, the number of respondents who chose “No provision about the amortization period should be set” is small, and most of the respondents think that a certain degree of preparer discretion should be given but a certain degree of restriction is needed.

In addition, we asked the respondents who answered “An upper limit of amortization period should be set” to answer the following question.

(Q1-8) How many years do you think should be chosen as the upper limit of the goodwill amortization period? Please choose one of the following options. If you choose “Other,” please fill in the blank with any specific number of years.

Table 3-9 Upper Limit of the Goodwill Amortization Period

	Number of responses	Percentage [%]
20 years	21	31.82
15 years	8	12.12
10 years	32	48.48
5 years	4	6.06
Other	1	1.52
Total	66	100

Note: Only one respondent chose “Other” and answered “1 year” in the blank.

- ✓ Although for preparers, the number of respondents that answered “20 years” is the largest and “10 years” is the second largest, for users, “10 years” is the largest (48.48%) and “20 years” is the second largest (31.82%).
- ✓ There are two possible reasons for this difference. First, analysts might considerd the value of

goodwill diminishes for around 10 years (given market competition); second, they might consider that if the upper limit of the amortization period is set to 20 years, preparers have too much discretion in determining the amortization period.

In addition, we asked the respondents who answered “A uniform amortization period should be set” to answer the following question.

(Q1-9) How many years do you think a uniform amortization period should be? If you choose “Other,” please fill in the blank with any specific number of years.

Table 3-10 Uniform Amortization Period

	Number of responses	Percentage [%]
20 years	0	0
15years	0	0
10 years	4	50
5 years	3	37.5
Other	1	12.5
Total	8	100

Note: Only one respondent chose “Other” and answered “3 years” in the blank.

- ✓ Only 8 respondents (12.5%) chose “A uniform amortization period should be set” as the answer to Q1-7. Just half of them answered “10 years” as a uniform amortization period and the remainder answered “5 years” or “3 years.”

Finally, we asked the respondents who chose “An upper limit should be set for the amortization period” or “A uniform amortization period should be set” to answer the following question on whether the rebuttable presumption should be made in the provision of an amortization period for goodwill.

(Q1-10) Do you think the rebuttable presumption of an amortization period for goodwill should be made? (Options: 1 = “Should be made”, 2 = “Should not be made”)

Table 3-11 Should the rebuttable presumption Be Made?

	Number of responses	Percentage [%]
1. Should be made	27	36.49
2. Should not be made	47	63.51
Total	74	100

- ✓ Like preparers, the percentage of users who answered "Should be made" (63.31%) is higher than those who answered "Should not be made" (36.49%). (However, the percentage of "Should not be made" is higher for users than preparers.) Because users are not likely to want to give preparers more discretion, this result seems to be natural.
- ✓

III-4. Characteristics of Goodwill as an Asset

This section explains the questions and responses of financial statements users regarding the characteristics of goodwill as an asset. The first questions asked are as follows.

Is there any part of goodwill that does not amortize semi-permanently?

(Q2) Do you think there is a part of goodwill that preserves its value semi-permanently? Please select one answer from the options below.

(Options)

1. All or the majority of the value is preserved semi-permanently
2. There is both a part that preserves its value semi-permanently and a part that does not
3. There is no part that preserves its value semi-permanently
4. Unsure

Table 3-12 Characteristics of Goodwill as an Asset

		Number of respondents	Percentage [%]
1.	All or the majority of the value is preserved semi-permanently	3	2.31
2.	There is both a part that preserves its value semi-permanently and a part that does not	75	57.69
3.	There is no part that preserves its value semi-permanently	43	33.08
4.	Unsure	9	6.92
	Total	130	100

- ✓ The majority (about 90%) of financial statement users chose the answers "There is a part that preserves its value semi-permanently and a part that does not" and "There is no part that preserves its value semi-permanently," consistent with the results obtained from financial statement preparers. While more financial statement users selected the former response (57.69%) than the latter (33.08%), more financial statement preparers chose the latter response, but they were roughly evenly split (i.e., 42.92% chose the former response and 46.74%, the latter). Thus some difference is evident in the response trends.

Components of Goodwill

In this survey, additional questions were asked depending on the answer to (Q2). First, when the response was either “all or the majority of the value is preserved semi-permanently” or “there is a part that preserves its value permanently and a part that does not,” the following two questions were also asked.

(Q2-1) The following is a list of items that are considered components of goodwill. Please select one that applies to each of the following items. (Select one for each of the following, 1＝Amortized, 2＝Generally amortized, 3=Generally is not amortized, 4=Is not amortized, 5=Unsure, 6=It is not a component of goodwill)

(Components addressed in this survey)

1. Brand
2. Sales know-how
3. Proprietary technology
4. Business model
5. Human resources
6. Site-specific conditions

Table 3-13 Components of Goodwill

Panel A（Brand）

	1	2	3	4	5	6	Total
Number of respondents	13	15	35	9	4	2	78
Percentage [%]	16.67	19.23	44.87	11.54	5.13	2.56	100

Panel B（Sales know-how）

	1	2	3	4	5	6	Total
Number of respondents	19	27	22	3	4	3	78
Percentage [%]	24.36	34.62	28.21	3.85	5.13	3.85	100

Panel C（Proprietary technology）

	1	2	3	4	5	6	Total
Number of respondents	19	37	14	2	4	2	78
Percentage [%]	24.36	47.44	17.95	2.56	5.13	2.56	100

Panel D（Business model）

	1	2	3	4	5	6	Total
Number of respondents	18	33	14	3	5	5	78
Percentage [%]	23.08	42.31	17.95	3.85	6.41	6.41	100

Panel E（Human resources）

	1	2	3	4	5	6	Total
Number of respondents	14	38	15	1	8	2	78
Percentage [%]	17.95	48.72	19.23	1.28	10.26	2.56	100

Panel F（Site-specific conditions）

	1	2	3	4	5	6	Total
Number of respondents	10	20	27	4	7	10	78
Percentage [%]	12.82	25.64	34.62	5.13	8.97	12.82	100

- ✓ Among those who responded that for goodwill “All or the majority of the value is preserved semi-permanently” or “There is a part that preserves its value semi-permanently and a part that does not,” only for the “Brand” component (Panel A), the proportion of respondents that chose “Generally is not amortized/Is not amortized” was considerably higher than those that chose “Amortized/Generally amortized.” With the exception of “Site-specific conditions” (Panel F), for the components “Sales know-how” (Panel B), “Proprietary technology” (Panel C), “Business model” (Panel D) and “Human resources” (Panel E), the proportion of respondents who answered “Generally is not amortized/Is not amortized” is lower than the proportion of those who answered “Amortized/Generally amortized”.
- ✓ The proportion of those who responded that “Brand” is a component of goodwill that “Generally is not amortized/Is not amortized” was high, and this result is consistent among preparers and users of financial statements.

Next, the following questions were asked in a freeform format regarding components considered to constitute goodwill, other than those listed in (Q2-1).

(Q2-2) If there are any components considered to constitute goodwill, other than those listed in Q2-1, please write them below.

There were 8 responses[66] and the details are as follows.

- ➢ Data (from the seller) (e.g. mutual use of sales and purchase price data)

[66] There were actually nine responses, but 1 was a supplement to (Q2).

- ➢ Patent rights, marketing rights, and commercialization rights
- ➢ Relative dominance in regulations and tax systems
- ➢ Excessive premiums
- ➢ Management ability[67]

- ✓ In addition, one of the respondents pointed out that "it is difficult to allocate excess earnings power into individual components, as excess earnings power is demonstrated by whether the business as a whole has a competitive advantage."
- ✓ The most frequent responses were related to rights such as patent, marketing, and commercialization rights. In addition, although some respondents considered if "excessive premiums" might be a component of the goodwill generated from an acquisition, preparers of financial statements did not identify "excessive premiums" in their responses. Considering the frequent occurrence of overpricing (which ultimately leads to impairment) in M&As, other than the respondents who identified this point, it is expected that many users (as well as preparers) of financial statements see the payment of "excessive premiums" as a component of the goodwill amount.
- ✓

III-5. Treatment of goodwill amount and goodwill amortization expense in securities analysis

In this section, we addressed our questions only to users of financial statements to understand the reality regarding the treatment of goodwill and its related amortization expenses in securities analysis.

Is the goodwill amount deducted from net assets?

The first question is whether the "goodwill amount" should be deducted from the net assets before conducting the analysis. This is relevant for cases where the subject company records a large amount of goodwill. If there is doubt on whether goodwill is an asset and the analyst considers net assets as "something that is possibly impaired," the question asks whether the analysts take this into consideration in their analysis.

(Q3) When conducting a securities analysis and using information on net assets, do you deduct the amount of goodwill from net assets? Please choose only one answer from the options below.

(Options)

[67] The item "human resources" (in Q2-1) includes the management team (managers). However, since "Management ability" was explicitly pointed out in the freeform answer (Q2-2), it is presented here as a response result.

1. It is deducted
2. It is not deducted
3. The treatment is not necessarily consistent
4. Unsure

Table 3-14 Is the goodwill amount deducted from net assets?

		Number of respondents	Percentage [%]
1.	It is deducted	7	5.38
2.	It is not deducted	55	42.31
3.	The treatment is not necessarily consistent	67	51.54
4.	Unsure	1	0.77
	Total	130	100

- ✓ The most common answer is option 3, "The treatment is not necessarily consistent" (51.54%), followed by option 2, "It is not deducted" (42.31%) (together accounting for over 90% of the responses). This reveals that when performing securities analysis, some analysts do not deduct the amount of little illiquid goodwill from the amount of net assets but use the figures as they are; and depending on the circumstances, some analysts deduct the amount of goodwill before conducting the analysis.
- ✓ In international discussions, users of financial statements, such as stock investors, generally ignore the amount of goodwill recorded on the balance sheet. It has been determined[68] that there is a possibility that indicators such as ROCE (Return on Capital Employed) and ROIC (Return on Invested Capital) are used without deducting the amount of goodwill, consistent with the findings of this survey.

Is goodwill amortization expense added back?

The next question relates to the handling of goodwill amortization expense.

(Q4-1) When conducting securities analysis, is goodwill amortization expense added back to profits, considering the differences in accounting standards and amortization policies adopted by the company that is analyzed? (Other than the cases in which amortization expense is deliberately added back, cases in which EBITDA is used as a profitability indicator are also included.) Please choose only one answer from the options below.

(Options)

[68] This can be found on slide 33 of Crai *et al*. (2018).

1. Amortization expense is added back
2. Amortization expense is not added back
3. The treatment is not necessarily consistent
4. Unsure

Table 3-15 Is goodwill amortization expense added back?

		Number of respondents	Percentage [%]
1.	Amortization expense is added back	53	40.77
2.	Amortization expense is not added back	18	13.85
3.	The treatment is not necessarily consistent	59	45.38
4.	Unsure	0	0
	Total	130	100

- ✓ The results above show that about 40% of respondents chose option 1, "Amortization expense is added back." It has been pointed out in international discussions, [69] such as IASB and ASAF meetings, that many analysts and investors conduct securities analyses using profit figures obtained by adding back goodwill amortization expense. However, the results of this survey are not necessarily consistent with this claim.[70]
- ✓ There are two types of respondents who chose "Amortization expense is added back," namely, those whose answers meant that "Amortization expense is deliberately added back" and those whose answers meant that "It is added back (but not deliberately) in the structure of EBITDA calculations." Therefore, there is a possibility that the same answers may have different meanings.
- ✓ Option 3, "The treatment is not necessarily consistent," accounted for a large proportion of total responses at 45.38% (the interpretation of these results is also difficult), and it is apparent that some analysts conduct their analysis using the actual profit figures, while others add back the amortization expense depending on the situation.

The usefulness of the goodwill amount after amortization

The final question is whether the goodwill balance (the amount on the balance sheet) net of amortization contains useful information for conducting a securities analysis.

[69] For example, at the ASAF meeting (December 6 and 7, 2018), a member of the Group of Latin America Standards Setters (GLASS) referred to survey results concerning financial reports of financial institutions in Brazil and commented that all analysts in the survey added back goodwill amortization expense. (URL: https://www.ifrs.org/-/media/feature/meetings/2018/december/asaf/asaf-meeting-summary-dec-2018.pdf) Additionally, IASB Chairman Hans Hoogervorst commented, "We […] know that many investors will ignore amortization and will immediately add it back in their projections." (URL: https://www.ifrs.org/news-and-events/2018/08/chairmans-speech-japan-and-ifrs-standards/)

[70] Additionally, supposing amortization expenses are added back, such a practice does not necessarily mean that "goodwill does not need to be amortized." For example, although depreciation expenses for tangible fixed assets are added back in the EBITDA calculation process, it is clear that procedures for depreciation have been put into practice.

(Q4-2) Do you think the amount of goodwill after deducting regular amortization expenses contains information useful for estimating corporate value (stock price)? Please choose only one answer from the options below.

Table 3-16 Whether the goodwill amount after amortization has informative value

		Number of responses	Percentage (%)
1.	Contains very useful information	19	14.62
2.	Contains some useful information	83	63.85
3.	Contains no useful information	18	13.85
4.	Unsure	10	7.69
	Total	130	100

- ✓ The results above show that options 1, “Contains very useful information,” and 2, “Contains some useful information” account for 78.46% of the entire sample, indicating that some analysts believe that the net goodwill amount provides valuable information. Although only 13.85% chose option 3 “Contains no useful information,” it is apparent that there is a certain percentage of respondents who think that the goodwill balance after amortization is not useful.
- ✓

III-6. Alternative Accounting Treatment for Goodwill (Part 1)

The previous sections related to evaluations concerning the historically used accounting treatments for goodwill and how users (analysts) handle information related to goodwill. From here on, we take into account other possible accounting treatments for goodwill (options listed below), in addition to “impairment only (non-amortization)” and “regular amortization + impairment,” if any of the following accounting treatment methods were preferable.

(Q5) The following methods could be considered accounting treatments after goodwill is acquired, instead of only recognizing either “impairment only (non-amortization)” or “regular amortization + impairment.”

・A method that recognizes discretionary selection of “impairment only (non-amortization)” or “regular amortization + impairment”

・A method in which goodwill that meets certain conditions (e.g., it can be proved that goodwill does not amortize semi-permanently, etc.) for each acquisition deal is not amortized, and for any other conditions, it is amortized regularly.

Taking into account the above methods, please choose one accounting treatment option that is best suited for you from viewpoint of financial statement user.

(Options)

1. Impairment only (non-amortization)
2. Regular amortization + impairment
3. Discretionary selection of "impairment only (non-amortization)" or "regular amortization + impairment"
4. Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly

Table 3-17 Preferable accounting treatment methods when other possibilities are considered

		Number of respondents	Percentage [%]
1.	Impairment only (non-amortization)	24	18.46
2.	Regular amortization + impairment	72	55.38
3.	Discretionary selection of "impairment only (non-amortization)" or "regular amortization + impairment"	12	9.23
4.	Goodwill that meets certain conditions for each acquisition deal is not amortized, and anything else is amortized regularly	22	16.92
	Total	130	100

- ✓ Out of the four options above, most of the respondents (55.38%) chose "regular amortization + impairment" as the most preferable accounting treatment (consistent with the results from Q1), while 18.46% chose "impairment only (non-amortization)". However, unlike the results for (Q1), the option "either is fine" was not provided; thus, although the results cannot be compared simplistically, it is apparent that the proportion of respondents for which either option is preferable is slightly less compared to (Q1).
- ✓ Regarding options 3 "Discretionary selection of impairment only (non-amortization) or "regular amortization + impairment" and 4 "Goodwill that meets certain conditions for each acquisition is not amortized, and anything else is amortized regularly," the percentage of respondents that chose these options as the most preferable are 9.23% and 16.92%, respectively.
- ✓ Between options 3 and 4, it is apparent from the results that more financial statement users prefer option 4 "Goodwill that meets certain conditions for each acquisition is not amortized, and anything else is amortized regularly."
- ✓

III-7. Alternative Accounting Treatment for Goodwill (Part 2)

Next, regarding the various types of accounting treatments for goodwill (historically practiced or logically possible), respondents were asked to evaluate their preference compared with the current two accounting treatments (i.e., "impairment only (non-amortization)" and "regularly amortized +

impairment treatment”).

(Q6) There are several accounting methods other than “impairment only (non-amortization)” and “regular amortization + impairment” that could theoretically be considered after acquisition of goodwill. Please share your opinion on the following accounting treatment methods for acquired goodwill. (Options: 1= “Preferable,” 2= “Somewhat preferable,” 3= “Somewhat undesirable,” 4= “Undesirable,” and 5 = “Unsure”)

1. No amortization and no impairment treatment (acquisition cost as is)
2. Regular amortization without impairment treatment
3. Continual revaluation based on fair value (the difference in value is included in the profit and loss calculation)
4. Immediate charge to earnings
5. Immediate charge to equity

Table 3-18 Accounting treatments currently being discussed compared to potential alternatives

Panel A No amortization and no impairment treatment (acquisition cost as is)

	1	2	3	4	5	Total
Number of respondents	13	3	26	86	2	130
Percentage [%]	10	2.31	20	66.15	1.54	100

Panel B Regular amortization without impairment treatment

	1	2	3	4	5	Total
Number of respondents	7	18	49	52	4	130
Percentage [%]	5.38	13.85	37.69	40	3.08	100

Panel C Continual revaluation based on fair value (the difference in value is included in the profit and loss calculation)

	1	2	3	4	5	Total
Number of respondents	13	38	32	39	8	130
Percentage [%]	10	29.23	24.62	30	6.15	100

Panel D Immediate charge to earnings

	1	2	3	4	5	Total
Number of respondents	12	32	31	47	8	130

Percentage [%]	9.23	24.62	23.85	36.15	6.15	100

Panel E Immediate charge to equity

	1	2	3	4	5	Total
Number of respondents	5	27	33	43	22	130
Percentage [%]	3.85	20.77	25.38	33.08	16.92	100

- ✓ For each item on Q6, the percentage of respondents who chose "Preferable/Somewhat preferable" is 12.31% for "No amortization and no impairment treatment (acquisition cost as is)" (Panel A), 19.23% for "Regular amortization without impairment treatment" (Panel B), 39.23% for "Continual revaluation based on fair value (the difference in value is included in the profit and loss calculation)" (Panel C), 33.85% for "Recorded as an immediate charge to earnings" (Panel D), and 24.62% "Immediate charge to equity" (Panel E). [71]
- ✓ Among the alternative accounting methods we have covered this time, compared to the current "impairment only (non-amortization)" and "regular amortization + impairment", there is no alternative accounting treatment that the majority considered to be "Preferable/Somewhat preferable".
- ✓ The items for which the percentage of respondents who answered "Preferable/Somewhat preferable" exceeded 30% are "Continual revaluation based on fair value (the difference in value is included in the profit and loss calculation)" and "Immediate charge to earnings." Regarding the latter, in the previous question (freeform response) there was an opinion that "because of the issues surrounding goodwill as an asset, the expense should be immediately amortized." The results suggest that some analysts support ideas similar to this.
- ✓ With 20% of respondents choosing "No amortization and no impairment treatment (acquisition cost as is)" or "Regular amortization without impairment treatment," it is implied that many respondents, both preparers and users of financial statements, view "Impairment treatment" as necessary for goodwill.
- ✓ For the item "Immediate charge to equity," over 20% of respondents selected "Preferable/ Somewhat preferable." However, many respondents also selected "Unsure;" thus, compared with the other options, opinions for this item are more varied.
- ✓

III-8. The Impact of Disclosure and Accounting Treatment related to Goodwill on Corporate Activity

[71] Most respondents chose "unsure" for "immediate charge to equity," the same as in the case of financial statement preparers.

As the last part of this survey, the following questions asked about the impact of goodwill and related disclosure information (specifically, disclosure of net assets after deducting goodwill) on the recognition of goodwill impairment losses and whether accounting for goodwill affects the company's substantive actions (here, making M&A decisions). For example, disclosure of net worth after deducting goodwill means the net worth of an entity with a large unamortized balance of goodwill would be reduced, the equity ratio would be discounted, and (if there is any doubt about whether goodwill is an asset) might also lead to the disclosure of excess. These questions are intended to confirm the understanding of financial statement users.

Impact of Disclosure of Net Asset Amount after Deducting Goodwill

（Q7）Currently, there are concerns that goodwill impairment losses are not being recorded at the appropriate time.

Therefore, so that recording of goodwill impairment losses is timelier, an idea has been proposed to request disclosure of the net asset amount after deducting goodwill (=net asset amount – goodwill balance). Do you think asking for disclosure of net assets after deducting goodwill will encourage more timely recording of goodwill impairment losses? Choose one answer that applies from the options below. (Options: 1= "It will encourage more timely recording of impairment loss," 2= "If anything, it would somewhat encourage more timely recording of impairment loss," 3 = If anything, it would not encourage more timely recording of impairment loss," 4 = "It will not encourage more timely recording of impairment loss," 5= "Unsure")

Table 3-19 Does disclosure of net assets after deducting goodwill impact the timing of impairment loss recognition?

		Number of respondents	Percentage [%]
1.	It will encourage more timely recording of impairment loss	25	19.23
2.	If anything, it would somewhat encourage more timely recording of impairment loss	35	26.92
3.	If anything, it would not encourage more timely recording of impairment loss	13	10
4.	It will not encourage more timely recording of impairment loss	36	27.69
5.	Unsure	21	16.15
	Total	130	100

✓ Although many respondents (16.15%) chose "Unsure," more respondents (46.15%) selected either "It will encourage more timely recording of impairment loss" or "If anything, it would somewhat encourage more timely recording of impairment loss."

- ✓ It is interesting that 24% to 25% of financial statement preparers answered that disclosure of the net asset amount after deduction of goodwill would “encourage more timely recording of impairment loss” or “If anything, it would somewhat encourage more timely recording of impairment loss.”
- ✓ The results above reflect the differences in the positions of financial statement preparers who are either unwilling to disclose negative information or believe that this kind of information is important.

Impact of Accounting Treatment of Goodwill on M&A

As mentioned in overview of tabulated results for prepares of financial statement, one important issue in considering the impact of accounting rules on company actions is whether the accounting treatment of goodwill potentially affects M&A. In this survey, the following questions were addressed to users of financial statements to solicit their thoughts on how accounting for goodwill after acquisition impacts M&A decisions.

（Q8）Do you think regular amortization or non-amortization of goodwill has an impact on your company’s decisions regarding mergers and acquisitions (M&A)? Choose one answer that applies from the options below.

(Options)

1. There is a high possibility that there is an impact
2. If anything, there is a high possibility that there is an impact
3. If anything, there is a low possibility that there is an impact
4. There is a low possibility that there is an impact
5. Unsure

Table 3-20 Impact of Accounting Treatment of Goodwill on M&A Decisions

		Number of respondents	Percentage [%]
1.	There is a high possibility that there is an impact	55	42.31
2.	If anything, there is a high possibility that there is an impact	54	41.54
3.	If anything, there is a low possibility that there is an impact	12	9.23
4.	There is a low possibility that there is an impact	6	4.62
5.	Unsure	3	2.31
	Total	130	100

- ✓ Regarding whether the accounting treatment of goodwill (with or without amortization) has an impact on a company’s M&A decisions, the responses “There is a high possibility that there is an impact" and "If anything, there is a high possibility that there is an impact" accounted for 83.85% of total responses. In particular, it is worth noting that 42.31% of respondents chose "there is a high possibility that there is an impact."

- ✓ As already confirmed, among preparers of financial statements, the percentage of respondents who answered "There is a high possibility that there is an impact" or "If anything, there is a high possibility that there is an impact" is higher than those who selected "If anything there is a low possibility that there is an impact" or "There is a low possibility that there is an impact."
- ✓ However, comparing the results for users versus preparers of financial statements, it is apparent that users of financial statements believe there is a possibility that whether or not goodwill is amortized has an impact on a company's M&A decisions. [72]
- ✓

III-9. Conclusion

Section III provided an overview of the tabulated results of the "Questionnaire on the Accounting Treatment of Goodwill," which was conducted for users of financial statements. When inquiring about the preferability of "impairment only (non-amortization)/regular amortization + impairment" in Q1, about 60% of analysts responded that "regular amortization + impairment" is preferable. This result is relatively low in comparison to the result from the survey of preparers of financial statements (approximately 70%).

Next, Q1-1 and Q1-3 asked for the reason why each accounting treatment was considered preferable. For those who selected "impairment only (non-amortization)," the reason most provided is "If there is an appropriate impairment test, there is no need for regular amortization," consistent with the results from preparers of financial statements. Meanwhile, those who chose "regular amortization + impairment," the reasons most provided is "To match revenue with appropriate period allocation (return on investment calculation)" and "Because it is an accounting treatment that is consistent with the accounting treatment for other depreciable assets." Users of financial statements (as compared with prepares of financial statements) are even more supportive of the accounting treatment that is consistent with that used for other depreciable assets. It seems as though the reason behind this is that there is a perception that an investment in goodwill is of equal quality as an investment in another depreciable asset and thus, should receive the same accounting treatment.

Regarding the amortization period for goodwill, many responded that rather than defining a uniform amortization period for all companies, it would be better to set a maximum time limit and leave a certain amount of discretion to companies. There seems to be some expectation of obtaining useful information on the investment recovery period based on the number of years of depreciation chosen by the company. Many of the respondents indicated ten years as the amortization period. For preparers

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[72] This point is considered to be consistent with the indications that the determination of the amortization period is impacted by profit level after amortization and achievement of targets.

of financial statements, the more frequent answer for the amortization period is 20 years, indicating differences in the trends of the responses. Additionally, when asked about possible accounting treatments other than the existing “impairment only (non-amortization)” and “regular amortization + impairment,” the results indicate that respondents highly disapprove all (accounting treatment) options.

As a practical matter for securities analysis, the results reveal that about half of the analysts answered that with regard to the balance sheet, “goodwill is deducted from net assets” and for the evaluation of profitability, “The amortization expense of goodwill is added back to profits.” Since we also collected information on the analysts’ attributes (such as years of work experience and whether they are on the sell-side or the buy-side, among others), it is possible to further develop the analysis, for instance, by using cross tabulations (although presently, there is no clear hypothesis).

It may be useful to consider the following points when comparing the results from financial statement preparers versus users in Sections II and III. Since securities analysts focus on listed companies as the subject of their analysis, a prerequisite for answering the questions is that the respondents come from “listed companies.” However, about 11% of financial statement preparers surveyed came from non-listed companies (Keidanren-affiliated, non-listed companies), and their responses do not necessarily contradict those of preparers and users of financial statements (from listed companies). In Section II, we conducted a questionnaire on Keidanren-affiliated companies (listed companies and unlisted companies) and other companies that are listed on the First Section of the TSE to obtain highly thought-provoking answers from financial statement preparers. If necessary in the future, it will be possible to extract results that are limited to listed companies from among the responses of financial statement preparers. These issues should be considered for future research, if deemed necessary.

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