Accounting Standards Board of Japan
Financial Accounting Standards Foundation

Research Paper No.1

Amortisation of Goodwill

May 2015

Research on Amortisation of Goodwill

The Accounting Standards Board of Japan

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I. Objective of the Paper

1. This paper has been prepared to provide a summary of the preliminary results of the research work undertaken on the amortisation of goodwill that was conducted by the ASBJ Staff (hereinafter referred to as "we" or "us") in order to make a contribution to the global discussions regarding financial reporting standards.

2. The ASBJ has progressed with its research work on accounting and disclosure of goodwill and related matters in partnership with the European Financial Reporting Advisory Group (EFRAG) and Organismo Italiano di Contabilità (OIC) having formed the "Research Group[1]". The Research Group plans to continue its research work with the aim of publishing its results sometime in the future, and although the ASBJ is issuing this paper separately, the research outcomes presented in this paper may form part of the Research Group's future work planned to be undertaken in coming months.

II. Background

3. The ASBJ, EFRAG and the OIC issued the Discussion Paper (DP), *Should Goodwill Still Not Be Amortised? – Accounting and Disclosure For Goodwill*[2] (hereinafter referred to as the "Goodwill DP") in July 2014.

4. Twenty-nine comment letters have been received in response to the Goodwill DP. Most respondents agreed with the preliminary views of the Research Group that amortisation of goodwill should be reintroduced, but these respondents provided mixed views on whether the IASB should indicate a maximum amortisation period. Some respondents acknowledged the subjectivity and high level of judgement inherent in determining the useful life of goodwill, and many considered that the IASB should develop guidance to help preparers determining the useful life of the

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[1] The Research Group consists of Tommaso Fabi, Technical Director of the OIC, Marco Mattei, Project Manager of the OIC, Filippo Poli, Research Director of EFRAG and Tomo Sekiguchi, the Board member of the ASBJ.

[2] The Discussion Paper can be found at the following web-site: https://www.asb.or.jp/asb/asb_e/international_activities/discussion/discussion_20140722_e.pdf

acquired goodwill. Detailed analysis can be found in the feedback statement[3], which was published in February 2015.

5. During the ASAF meeting in September 2014, the Research Group presented the Goodwill DP to the ASAF and IASB members, where some meeting participants questioned if it would ever be possible to prescribe the appropriate length of an amortisation period in accounting standards. There was also a view that twenty years would be too long for an amortisation period of goodwill.

6. In addition, the ASBJ has deliberated the "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications" since August 2013. In the Exposure Draft of the ASBJ Modification Accounting Standard No.1 *Accounting for Goodwill*, the ASBJ proposed to modify the accounting requirements of IFRS 3 *Business Combinations* so that the acquirer is required to amortise goodwill arising from acquisition of a businesses over its useful life. During the ASBJ's deliberation, there was also discussion as to how to specify the period over which goodwill should be amortised. This will be explained in the Basis for Conclusions of the standard, which the ASBJ expect to publish shortly.

7. Having considered these developments, the ASBJ decided to carry out fact-finding studies of the current practice of Japanese companies, taking advantage of the fact that Japanese GAAP still requires amortisation of goodwill.

8. Under Japanese GAAP an entity is required to amortise acquired goodwill on a systematic basis, using the straight line method or other reasonable method, over the period for which goodwill is expected to have an effect, which shall not exceed 20 years, while requiring an entity to recognise impairment losses when a specified threshold is met (hereinafter referred to as the "amortisation and impairment approach").

9. As for presentation and disclosure requirements of goodwill Japanese GAAP, among others, sets out the following provisions:

3 For the feedback statement, please see the following web-site:
https://www.asb.or.jp/asb/asb_e/international_activities/discussion/feedbackstatement_20140722_e.pdf

(a) Presentation: Goodwill shall be presented as part of the intangible assets category and its amortisation shall be presented as part of selling, general and administrative expense.

(b) Disclosure: Amortisation periods and methods of goodwill amortisation shall be disclosed in the notes to consolidated financial statements.

10. On that basis, we carried out the following works:

(a) Review of public disclosures regarding the current practice of goodwill amortisation periods under Japanese accounting standards by reviewing disclosures in annual reports of listed companies of which stock prices were referred to JPX Nikkei Index 400[4];

(b) Sending a questionnaire to major Japanese listed companies about their practices relating to goodwill amortisation;

(c) Performing limited review of academic literature that studied the comparison between the "impairment-only approach" and the "amortisation and impairment approach" as well as the period over which the excess earning power of a firm diminished; and

(d) Discussion with financial statements users in Japan regarding their views on the amortisation of goodwill.

III. Review of Public Disclosures

Survey Design

11. We reviewed the accounting policy disclosures in annual reports of listed companies included in the JPX Nikkei Index 400, of which 286 companies prepared consolidated financial statements in accordance with Japanese GAAP for the reporting periods ending 31 March 2014. Of the 286 companies, 247

[4] JPX Nikkei Index 400 is composed of companies with high appeal for investors that meet the requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives. For further information of JPX 400, please see the following link: http://www.tse.or.jp/english/market/topix/jpx_nikkei.html

companies provided disclosures of the amortisation periods used as part of their significant accounting policies.

Findings

12. Major findings of the review are as follows[5]:

    (a) 135 companies stated a specific number[6] of periods over which goodwill was amortised (for example, 5-year, 10-year or 20-year);

    (b) 86 companies referred to ranges over which goodwill was amortised (for example, 5 to 10 years, periods within 20-year);

    (c) 27 companies provided narrative descriptions rather than specifying periods over which goodwill was amortised; and

    (d) 5 companies stated that goodwill was recognised as an expense during the period in which business combinations were carried out[7].

13. In the disclosures provided by 135 companies that referred to specific number of periods over which goodwill was amortised (that corresponds to (a) of the previous paragraph), the following periods were specified:

    (a) 5-year: 74 companies;

    (b) 10-year: 13 companies;

    (c) 20-year: 19 companies; and

    (d) Other periods: 29 companies.

14. In disclosures provided by 86 companies that stated a ‘range’ over which goodwill was amortised (that corresponds to (b) of paragraph 12 of this paper), the following ranges were provided:

    (a) Not longer than 20 years: 55 companies;

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5 Six companies referred to approaches that were a mixture of approaches (a), (b) and (c). Thus, the total number of companies stated in (a) – (d) of the paragraph (253) does not equal the number stated in the previous paragraph (247) by the effect.

6 A specific number of periods in this paragraph do not mean a uniform period that applies to all business combinations.

7 Japanese GAAP also allows an entity to expense acquired goodwill in the period the acquisition takes place if the amount of goodwill is immaterial.

(b) 5 to 10 years: 9 companies;

(c) 5 to 20 years: 8 companies; and

(d) Other ranges: 14 companies.

15. 27 companies that provided narrative descriptions (that corresponds to (c) of paragraph 12 of this paper) typically followed the description contained in the accounting standards, for example, by stating that ‘amortisation period is determined based on a period over which goodwill is expected to have an effect.’

IV. Questionnaire to Listed Companies

Survey Design

16. In addition to the review of public disclosures, we carried out a survey by sending a questionnaire to major Japanese companies in order to gain an understanding of their current practices relating to goodwill amortisation. The questionnaire is reproduced in Appendix-I.

17. The outline of the survey is as follows:

(a) Survey period: November 25, 2014 to December 19, 2014

(b) Total population of companies to which questionnaire was sent: 56 companies (most of the respondents are large multi-national companies)

(c) Responses received: 26 companies (of which, 19 companies use Japanese GAAP, and 3 companies use IFRSs and 4 companies use US GAAP[8].)

(d) Summary of question items:

- Matters regarding amortisation period of goodwill, including the following (Questions 1 and 2);
  - ➢ Factors to consider when determining the amortisation period of goodwill

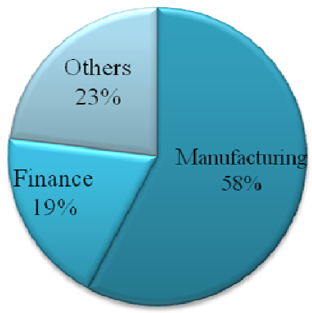
[8] Respondents using IFRSs or US GAAP responded only to Questions 5-7, because they do not have current practice of goodwill amortisation.

- ➢ A company’s internal policy (if any) for specifying an amortisation period and the reasons thereof
- ➢ Individual amortisation periods and the factors considered in determining them for all major business combinations experienced in the last five years
- ➢ Evidence to support the judgment used in determing the amortisation periods

- Current practice for determining amortisation methods of goodwill (specifically, whether methods other than a straight-line method were applied) (Question 3);
- Current practice for establishing the residual value of goodwill (specifically, whether there were cases where the residual value was determined to be a value other than nil) (Question 4);
- Views on how the requirements of goodwill amortisation periods should be prescribed in standards (Questions 5 and 6); and
- Any other comments on amortisation of goodwill (Question 7).

18. Of the total number of respondents (26 companies), 15 companies (58%) were in the manufacturing industry, 5 companies (19%) were in the finance industry, and 6 companies (23%) were in other industries. This is presented visually with the following chart.

Chart 1: Classification of respondents by industry



19. To illustrate the size of respondents, the number of entities classified by the amount of relevant accounts (revenue and total assets) on the basis of the companies' latest consolidated financial statements (either for the annual period ending 31 December 2013 or 31 March 2014) are shown in the follow table. Please note that this table is provided solely for the purpose of reference, and the ASBJ Staff did not investigate possible interactions between the size of the respondents and fact pattern or views regarding accounting for goodwill.

[Revenue amounts]

Range of amounts	Manufacturing	Finance	Other	Total
Less than 1 trillion yen	2	1	-	**3**
Between 1 trillion yen and 5 trillion yen	8	3	3	**14**
Between 5 trillion and 10 trillion yen	4	1	3	**8**
More than 10 trillion yen	1	-	-	**1**
Total	**15**	**5**	**6**	**26**

[Total assets]

Range of amounts	Manufacturing	Finance	Other	Total
Less than 1 trillion yen	2	-	-	**2**
Between 1 trillion and 5 trillion yen	8	1	3	**12**
Between 5 trillion and 10 trillion yen	3	1	2	**6**
More than 10 trillion yen	2	3	1	**6**
Total	**15**	**5**	**6**	**26**

20. In the following paragraphs, we summarise the responses corresponding to each of questions stated in (d) of paragraph 17 of this paper.

Findings

Factors to Consider When Determining the Amortisation Period of Goodwill

21. As for Question 1 (that is, factors to consider when determining the amortisation period of goodwill), we found the following[9]. For more detail, please refer to Table-1 of Appendix-II.

    (a) Many responses (12 out of 31) referred to both or either of the following as the factors that were usually considered:

    - Time periods over which an acquiree, on a stand-alone basis, is expected to maintain higher future cash flows and
    - Time period over which synergies resulting from acquirer and an acquiree are expected to be realized.

    (b) Many responses (11 out of 31) referred to the expected payback period of the investment as the factors that were usually considered.

    (c) Some responses (2 out of 31) referred to useful lives of related identifiable primary assets as the factors that were usually considered (e.g., intangible assets).

22. In addition, several responses referred to the following as factors that they often consider:

    (a) Uncertainty about the estimate of the period over which goodwill is expected to have an effect;

    (b) Average number of periods over which unrecognised intangible assets are expected to have an effect;

    (c) Risks of overstatement of assets in balance sheets (including risks pertinent to start-up companies and macro-economic risks);

[9] Responses in the paragraph permit the counting of multiple responses from a single respondent.

(d) Financial capacity of an entity; and

(e) Size of goodwill.

A Company's Internal Policy (if any) for Specifying the Amortisation Period

23. As for Question 2-1 (that is, a company's internal policy when specifying the amortisation period and the reasons thereof), we received the following responses[10].

(a) The majority of respondents (63%, or 12 out of 19) stated that they maintained an internal company policy so as to simplify the decision as to the determination of amortisation periods of goodwill. They further explained the following:

- 7 respondents stated that they set the default amortisation period as 5 years (typically for business combinations involving relatively smaller amount of investments), which was typically used when the period for which goodwill is expected to have an effect was not reliably estimated or when the amount of goodwill was insignificant. Some of the respondents attributed the reason for this practice to a provision that existed in an already superseded Commercial Code or accounting pronouncement that existed in the past.

- 3 respondents stated that they set specific periods other than 5 years as the default amortisation period. These amortisation periods included those determined considering the nature of their line of businesses (thus, determined the default period, for example, as 20 years), or those determined based on the periods over which the effect of goodwill is expected to have the effect as adjusted by the past experience of acquisitions (thus, determined the default period, for example, as 10 years). .

- 2 respondents stated that they set different amortisation periods depending on the size of goodwill arising from each business combination.

(b) Other respondents did not state that they maintained an internal policy regarding the goodwill amortisation period.

[10] Japanese GAAP does not require an entity to establish and maintain the internal policy, but entities sometimes prepare an internal policy to implement the requirements of accounting standards.

Amortisation Periods and the Factors Considered for Major Business Combinations

24. As for Question 2-2 (that is, amortisation periods and factors that a company actually considered when determining amortisation periods for major business combinations during the past five years), we received the following responses[11]:

(a) For over one-third of the major business combinations (38%, or 15 out of 40), the amortisation period estimated was 20 years.

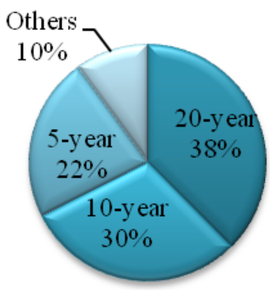
(b) For approximately one-third of the major business combinations (30%, or 12 out of 40), the amortisation period estimated was 10 years.

(c) For approximately one-quarter of the major business combinations (22%, or 9 out of 40), the amortisation period estimatedwas 5 years.

(d) For some major business combinations (10%, or 4 out of 40), the amortisation period estimated was neither 20 years, 10 years or 5 years.

25. Responses to the questionnaire with regard to the current practice of amortisation periods for major business combinations in the past five years are shown visually with the following pie-chart.

Chart 2: Amortisation periods for major business combinations in the past five years



26. Table-2 of Appendix-II represents the analysis of the results by industry. Features of the responses are as follows:

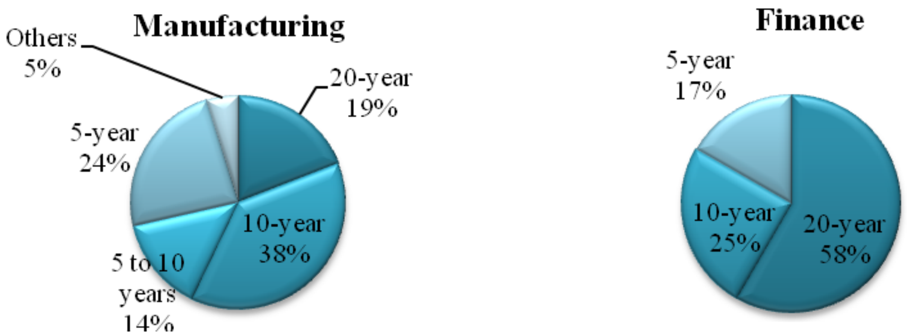
(a) For companies in the manufacturing sector, the amortisation period was often no longer than 10 years (76%, or 16 out of 21).

(b) For companies in the finance sector, the amortisation period was often 20 years (58%, or 7 out of 12).

[11] Responses in the paragraph permit the counting of multiple responses from a single respondent.

27. The following pie-chart represents the summary of responses to the question with regard to the amortisation periods of major business combinations in the past five years from companies classified by industry (that is, the manufacturing and finance industries).

Chart 3: Amortisation period for major business combinations in the past five years (classified by industry)



28. Table-3 of Appendix-II represents the analysis of the responses by factor. Features of the responses are as follows:

(a) For major business combinations in which the amortisation period was estimated to be 20 years, the amortisation period was determined taking into account either the higher rate of return from an acquiree, the synergy effect between the acquirer and the acquiree, or both in most cases (87%, or 13 out of 15).

(b) For major business combinations in which the amortisation period was estimated at 10 years, the amortisation period was often determined on the basis of the expected payback period of the investment in a business combination (66%, or 8 out of 12). In 66% (6 out of 9 cases) of major business combinations the amortisation period was estimated to be 5 years.

Evidences to Support the Judgment of Selecting the Amortisation Periods

29. As for Question 2-3 (that is, evidences to support the judgment used in determining the amortisation period), we received the following responses[12].

    (a) Approximately half of respondents (47%, or 8 out of 17) referred to both of the following:

    - Board of directors' meeting documents or documents regarding approval requests for the investment decisions; and
    - Externally prepared due diligence reports or pricing at the time of acquisition.

    (b) Approximately one thirds of respondents (29%, or 5 out of 17) referred to either of the documents shown in the previous bullet points.

    (c) Approximately one fifths of respondents (18%, or 3 out of 17) referred to 'other materials' in conjunction with the above mentioned materials, and specifically mentioned the following:

    - External reports on prospects on market conditions of the acquiree;
    - Acquiree's existing contracts with its major customers;
    - Internal information that was prepared when deciding the consideration paid to the acquisition; and
    - Nature of the acquiree's businesses.

Amortisation Methods

30. As for Question 3 (that is, whether an amortisation method other than the straight-line method was used), although Japanese GAAP does not explicitly preclude the use of amortisation methods other than the straight-line method, no respondents stated that they chose amortisation methods other than the straight-line method.

[12] Responses in the paragraph permit the counting of multiple responses from a single respondent.

Residual Value of Goodwill

31. As for Question 4 (that is, whether the residual value was estimated for goodwill amortisation), although Japanese GAAP does not explicitly preclude companies from estimating residual value of goodwill, no respondent stated that they estimated residual value of goodwill other than nil.

Views on How the Requirements of Goodwill Amortisation Periods Should be Prescribed

32. Table-4 of Appendix-II represents the summary of responses to Questions 5 and 6 (that is, the views on how the requirements of goodwill amortisation periods should be prescribed in accounting standards).

33. Respondents expressed the following views:

    (a) Approximately half of respondents (48%, or 12 out of 25) supported the approach in which an entity set an appropriate amortisation period not exceeding a maximum period specified in the standard. These respondents unanimously stated that 20 years should be the maximum period. This is primarily for the following reasons:

    - In principle, an entity (having the most extensive knowledge of the relevant facts) should be responsible for estimating an appropriate amortisation period based on the respective facts and circumstance. However, the maximum number of periods would still be necessary so as to appropriately manage the degree of management discretion.
    - Appropriate amortisation periods would vary on a case-by-case basis and it would be almost impossible to specify a uniform and appropriate amortisation period.
    - Although a shorter period may be appropriate for smaller business combinations, a longer period (for example, 20 years) is often appropriate when the scale of the acquisition is larger, where the acquisition decision is made based on longer-term expectations.
    - It would be extremely difficult to predict future business and economic conditions beyond 20 years.

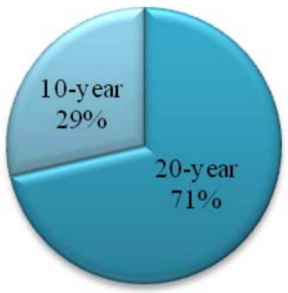
- Setting the maximum period as 20 years is consistent with the existing Japanese accounting standards.

(b) Approximately one third of respondents (28% or 7 out of 25) supported the approach that would specify a default (maximum) period, with a longer period to be used when rebutted by reasonable grounds. Among the respondents, 5 of 7 respondents stated that 10 years would be an appropriate default period, while 2 of them thought that 20 years would be appropriate as a default period. Major reasons cited are as follows:

- By specifying a maximum period as the rebuttable presumption in the accounting standard, comparability of financial information would be enhanced.
- Specifying a default amortisation period as the rebuttable presumption would provide simplicity in practice, while providing an opportunity to reflect the economic reality.
- 10 years being a default period is consistent with the fact that free cash flows are usually estimated over 10 years as well as the US GAAP requirements for private companies.
- 10 years reflects the speed of changes in the business environment, and is often used as the amortisation period for brands, which may have a similar nature to or characteristics of goodwill.
- Setting a too long amortisation period may inappropriately delay recognition of amortisaion charge, which would nourish corporate culture to value opportunistic decision by management and may harm the sustainable growth and long-term value creation of corporates. Setting a maximum period as 10 years would be appropriate in light of imposing an appropriate discipline in the corporate management.
- The longer the periods of estimation are, the more uncertain the assumptions would become. Thus, establishing a default amortisation period (10 years) as the rebuttable presumption would be appropriate.

34. Respondents' views on the appropriate number of periods that should be prescribed in accounting standards for goodwill amortisation are shown visually in the following chart:

Chart 4: Views on appropriate number of periods for goodwill amortisation[13]



Other Comments

35. As for Questions 7 (that is, other comments), respondents expressed the following views:

(a) IFRSs and US GAAP should remain converged on the accounting requirements of business combinations, especially those relating to goodwill.

(b) Before exploring whether a perfect answer can be found for the amortisation period, what is imperative is to steer in a basic direction to require amortisation of goodwill. A research on an appropriate length of amortisation periods should be carried out following the decision on the basic direction.

(c) Issues relating to accounting for goodwill should be discussed in conjunction with peripheral accounting requirements (including separate recognition of intangible assets and whether full goodwill method is appropriate). At the same time, it would also be desirable to explore simplification of impairment testing procedures.

[13] This pie-chart is prepared based on the data that corresponds to both (a) and (b) of paragraph 32 of this paper.

V. Limited Review of Academic Literature

36. In addition to the research works explained in the previous sections, we have read various academic literature with the following purposes:

(a) To find out whether, and if so, how academic literature supports either the "impairment-only approach" or "amortisation and impairment approach". This is because the outcome of the academic research commissioned by the IASB seemed to suggest that there was evidence that would support the greater usefulness of the impairment-only approach as it provided a signalling effect when impairment losses are recognised on goodwill.

(b) To determine if the research provided an indication as to the period over which excess earning power would diminish. Presuming that much of the components of goodwill are thought to be excess earning power of a firm, we thought that the findings of the academic research on this subject would be helpful in considering the accounting requirements relating to amortisation periods.

37. The population of academic literature to which we have performed a limited reviewed was determined based on the papers that had been reviewed by the IASB Staff[14] and some others that were advised by academics whose suggestions we sought.

38. The following paragraphs offer a brief summary of what we have found in our research. A list of the academic literature read is presented in Appendix-III of the paper.

Comparison between the Impairment-Only Approach and the Amortisation and Impairment Approach

39. Having consulted with academics in Japan, we reviewed relevant academic research that studied the value relevance of goodwill under the impairment-only approach in comparison with the amortisation and impairment approach. The papers we reviewed included both the papers reviewed by the IASB Staff as well as those we

[14] Of the papers which the IASB Staff presented in the September 2014 IASB Board meeting, our review covered ones that relate to the theme of "value relevance".

separately selected. The summary of major findings and the ASBJ Staff's commentaries (including the limitations) are shown in the Table 1 of Appendix-IV.

40. As a result of our review work, we concluded that it is at least difficult to immediately conclude that the impairment-only approach is superior to the amortisation and impairment-only approach for the following reasons:

(a) The studies we reviewed did not compare the degree of value relevance of the two approaches under the same condition.

(b) The fact that there was value relevance between recognition of impairment losses and share prices may not necessarily indicate that the market reacted to the fact that an impairment loss was recognised in the financial statements.

(c) Some studies even indicated that there is very little correlation between recognition of impairment losses and share prices.

(d) A number of control factors existed, especially where the academic research was carried out based on the financial information for the period when IFRSs was initially applied in a particular jurisdiction.

(e) Some studies found that the level of compliance regarding the requirements of impairment testing significantly varied depending on the locus of an entity as well as the auditors engaged in the audit of financial statements. This may indicate that impairment losses were not necessarily recognised in a timely manner. In addition, costs and benefits resulting from the requirements were not often examined under the research.

Periods over which Excess Earning Power would Diminish

41. We reviewed the relevant academic literature to seek evidence in considering the following matters:

(a) Whether the excess earning power is expected to be mean reverting to the industry average; and

(b) If the excess earning power is expected to be mean reverting to the industry average, what would be the length of the period over which it is expected to revert back to the industry average.

42. Table 2 in Appendix-IV of the paper explains, on a selected basis, the papers that we reviewed for these purposes. We noted that these studies unequivocally concluded that the excess earning power was mean reverting to the industry average, which would imply that the excess earning power would diminish over time. Some studies went further to state that, in many cases, the excess earnings power largely diminished over the first five years after the business combination and became extinct within ten years.

VI. Discussion with Users of Financial Statements

43. In Appendix-V, we attach the excerpt from the survey carried out by the Securities Analysts Association of Japan (SAAJ) with regard to users' views on amortisation of goodwill. This survey was carried out by the SAAJ when preparing its comment letter to the ASBJ's Exposure Draft on "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications".

44. As shown in the survey result, Japanese users' views were mixed as to whether they prefer the impairment-only approach or the amortisation and impairment approach. However, the result showed that the majority of users expressed support for the amortisation and impairment approach.

45. In order to deepen our understanding, we reached out to Japanese users to seek their rationale. During the discussion, some explained that financial information is richer under the amortisation and impairment approach, for example, because it would provide some indication about management views on the expected payback period for investments. Although amortisation charges are added back when calculating the free cash flows, they were of the view that the adjustment process is relatively straightforward and the cost of doing so would not be too significant in comparison with the incremental informational benefit under the amortisation and impairment approach.

VII. Our Preliminary Observations

46. Except for the observations having carried out a review of academic literture (see paragaraphs 40 and 42 of this paper), based on the work to date, we note the following observations:

(a) Although many seemed to agree with the principle that goodwill should be amortised over the period for which goodwill is expected to have an effect, views on how this should be implemented varied. For example, some interpreted that it means only the periods over which an acquiree, on a stand-alone basis, is expected to maintain higher future cash flows, while others seemed to interpret that it should also include time periods over which synergies resulting from both an acquirer and an acquiree are expected to be realised. This may be one of the areas on which we should seek to have consistent understanding when undertaking the standard-setting initiative.

(b) In addition to the two factors mentioned above, the expected payback period was commonly referred to as a factor in estimating the amortisation period. Although the concept of expected payback period is not fully aligned with the period over which goodwill is expected to have an effect, in many cases the notion of the expected payback period would at least be a good starting point to consider the appropriate amortisation period.

(c) Although Japanese GAAP does not require an entity to establish a company's internal policy for goodwill amortisation, the majority of respondents established their internal policies within the constraint of the accounting requirements. Many of such policies seemed to specify a shorter period for smaller amounts of goodwill, while requiring that decision should be made on a case-by-case basis, evidenced by the facts and circumstances for large-scale business combinations. In many such cases, companies seemed to have chosen a longer period than the default period set down in their internal policies.

(d) Although ths sample population was not necessarily large, we found some variation between industries as to the amortisation period estimated in our survey. Especially, an entity operating in the finance industry tended to choose a longer period. This may be because finance industry products (for example, long-term lending by commercial banking or life insurance contracts by insurance business) are of a long-term nature, such that the amortisation period tends to be longer.

(e) Based on our review of public disclosures, it was found that for many business combinations, 5 years was often estimated as the appropriate amortisation period. However, for goodwill arising from larger scale business combinations, many companies estimated a longer-year (up to and including 20 years) to be the appropriate period. This is primarily because for larger scale business combinations, companies often make investment decisions based on a much longer-term horizon with the expectation of longstanding synergy effects.

(f) Many companies used documents (such as those used for acquisition decisions and due-diligence documents) to support their rationale for determining goodwill amortisation periods. Although it may be rare, other documents such as contracts with major customers or the nature of an acquiree's business operations were also used to support the period.

(g) Although Japanese GAAP does not prohibit setting the residual value for goodwill amortisation, no company seemed to set a residual value other than nil for goodwill amortisation purposes. Likewise, although Japanese GAAP does not prohibit the use of amortisation methods other than the straight-line method, virtually no company used other methods. Nevertheless, considering that some academic literture seemed to indicate that recognising impairment losses had value relevance, it may be worthwhile to explore whether, and if so, when other amortisation methods (including increased balance amortisation method) may be appropriate in the future research.

(h) There was no support for the use of a uniform period without granting room to use other periods. However, views were divergent as to how to prescribe the amortisation period of goodwill, including the following:

(i) Many expressed support for specifying the maximum length of period as 20 years, primarily because they thought that in the first place an entity should be responsible for estimating the period and that the period over which the goodwill is expected to have the effect would be longer for business combinations of larger scale. They thought that the requirement to use a shorter period would not reflect the economic reality of such large-scale business combinations. In addition, some observed that respondents preferred 20-year as the specific number, partly because that period has been prescribed as the maximum number of amortisation periods under Japanese accounting standards.

(ii) Some others expressed support for the approach which would specify 10 years as a default (maximum) period, while allowing a longer period where robust evidence was provided to support the assessment.

(iii) Drawing on conclusions in academic litetrues[15], it was also mentioned that the method of prescribing the amortisation period depends on whether general principles in accounting requirements should even cover unordinary cases. If it was felt that unordinary cases should also be captured by general principles, establishing the provision that requires amortisation of goodwill over a period not exceeding 20 years may be justified. If not, the periods over which goodwill is to be amortised should be shorter, while permitting longer periods in the exceptional cases.

(i) Based on our discussion with users, it was felt that wheher amortisation of goodwill is helpful for users should not be judged solely based on whetehr amortisation charge is added back for the purpose of partiuclar financial analysis (including the esimate of the information about free cash flows). For example, areas that warrants additional consideration would include:

(i) How to improve the informational value from the totality of financail statements;

(ii) Whether users' incremental workload (in this case, users' workload of addiing back amortisation charge) can reasonalby justify the loss of other potentially valuable information (incluidng the inforamtion about management's estimate of amortisation periods); and

(iii) How an accounting requirement contributes to the quality of information about earnings.

[15] For example, please see Nissim and Penman (2000).

Appendix-I

ASBJ's Questionnaire on goodwill amortisation

Estimate of amortisation period

(Question 1)

1. Paragraph 32 of the ASBJ Statement No.21 *Accounting Standard for Business Combinations* requires that "goodwill shall be recognised as an asset and be amortised on a systematic basis, using the straight line method or other reasonable method, over the period for which goodwill is expected to have an effect, which shall not exceed 20 years."[16] In estimating an amortisation period for goodwill, which of the following factors do you specifically take into consideration? (Check all that apply.)

- ☐ (a) Time periods over which an acquiree, on a stand-alone basis, is expected to maintain higher future cash flows (or excess earning power), compared to competitors in the industry
- ☐ (b) Time period over which synergies resulting from combining your company and an acquiree are expected to be realized
- ☐ (c) Expected payback period of the investment on a business combination (if any adjustments are made, please describe the effects)
- ☐ (d) Useful life of related identifiable primary assets (e.g., intangible assets)
- ☐ (e) Expected period over which the deferred tax assets arising from a business combination will be recovered
- ☐ (f) Other factors (Please describe specifically, to the extent possible)

(Question 2-1)

2. In relation to [Question 1], do you have a default amortisation period (for example, 10 years)? If so, please explain why you set such a period and how you determined the length.

(Question 2-2)

3. In relation to [Question 1], how did you determine amortisation periods for goodwill arising in major business combinations (for the three largest combinations) occurring within the last five years? Please fill out the following table, to the extent possible.

Amount of goodwill arising in major business combinations occurring within the last five years	Amortisation period	Which of the factors in [Question 1] did you consider? (you can choose more than one factor)

[16] This Standard also states "if the amount of goodwill is insignificant, it may be recognised as an expense for the annual period when it occurs."

Million Yen	Years	
Million Yen	Years	
Million Yen	Years	

(Question 2-3)

4. When estimating the amortisation period, which of the following materials did you consider in your determination?

☐ Board of directors meeting documents or requests for approval on decision on the investment

☐ External report on due diligence or pricing at the acquisition

☐ Other materials (Please describe specifically, to the extent possible)

<u>Determination of amortisation method</u>

(Question 3)

5. When amortising goodwill, have you ever used any amortisation method other than the straight line method?

☐ Yes

☐ No

If you answered 'Yes', please state the method you used and the factors you considered when determining the method.

<u>Estimate of the residual value</u>

(Question 4)

6. When amortising goodwill, have you ever estimated a residual value other than zero?

☐ Yes

☐ No

If you answered 'Yes', please describe the factors you considered when estimating the residual value.

<u>Others</u>

(Question 5)

7. If the amortisation of goodwill were to be reintroduced in IFRS, which of the following requirements for the amortisation period do you think is preferable?

☐ (a) Any periods that an entity estimates (without any restriction)

☐ (b) A period not exceeding a certain maximum period

☐ (c) A period not exceeding a certain maximum period, with a longer period being allowed when rebutted by reasonable explanations

☐ (d) A uniform period

(e) A uniform period, with a shorter or longer period being allowed when rebutted by reasonable explanations

☐ (f) Others

Please explain why you chose your answer.

(Question 6)

8. If you answered (b)-(e) in [Question 4], which of the following time periods do you think is preferable?　Please choose one and state why.

☐ 20 years

☐ 10 years

☐ 7- 8years

☐ 5 years

☐ Other：　years

(Question 7)

9. If you have any other comments other than to above questions, please state below.

Appendix-II

Details of responses to the ASBJ's questionnaire on goodwill amortisation

Table 1: Summary of responses to Question 1 (classified by the number of responses)

Factors	Number of responses
(a) Time periods over which an acquiree, on a stand-alone basis, is expected to maintain higher future cash flows (or excess earning power), compared to competitors in the industry	6
(b) Time period over which synergies resulting from combining your company and an acquiree are expected to be realized	6
(c) Expected payback period of the investment in a business combination (if any adjustments are made, please describe the effects)	11
(d) Useful life of related identifiable primary assets (e.g., intangible assets)	2
(e) Expected period over which the deferred tax assets arising from a business combination will be recovered	-
(f) Other factors	6
Total	31

Table 2: Summary of responses to Question 2-2 (by industry)

Industries	20-year	10-year	5-year	Other years (5 to 10 years)	Total number of transactions
Manufacturing	4	8	5	4 (3)	**21**
	19%	38%	24%	19% (14%)	100%
Finance	7	3	2	-	**12**
	58%	25%	17%	-	100%
Other	4	1	2	-	**7**
	57%	14%	29%	-	100%
Total number of transactions	**15**	**12**	**9**	**4** **(3)**	**40**
	38%	**30%**	**22%**	**10%** **(7%)**	**100%**

Table 3: Summary of responses to Question 2-2 (by factors)

Factors	20-year	10-year	5-year	Other years (5 to 10 years)	Total number of transactions	Percent of transactions
(a)	4	-	-	-	4	10%
(b)	-	1	-	-	1	3%
(a) and (b)	3	-	-	-	3	7%
(a), (b) and (c)	2	-	1	2 (2)	5	13%
(a), (b) and (d)	1	-	-	-	1	3%
(b) and (f)	3	1	-	-	4	10%
Sub total number of transactions	**13**	2	1	2 (2)	18	46%
	87%	17%	11%	50% (50%)		
(c)	2	**8**	**6**	1 (1)	17	42%
	13%	**66%**	**66%**	25% (25%)		
Other	-	2	2	1 (-)	5	12%
	-	17%	23%	25% (-)		
Total number of transactions	15 (38%)	12 (30%)	9 (22%)	4 (3) (10%)	40	100%
	100%	100%	100%	100%		

Legend:

Factors (a) to (f) denote the following meanings:

(a) A time period over which an acquiree, on a stand-alone basis, is expected to maintain higher future cash flows (or excess earning power), compared to competitors in the industry

(b) A time period over which synergies resulting from combining your company and an acquiree are expected to be realized

(c) The expected payback period of the investment in a business combination (if any adjustments are made, please describe the effects)

(d) The useful life of related identifiable primary assets (e.g., intangible assets)

(e) The expected period over which the deferred tax assets arising from a business combination will be recovered

(f) Other factors

Table 4: Summary of respondents to Questions 5 and 6

Question 5: Ways of prescribing the amortisation period	Question 6			Total number of respondents
	20-year	10-year	N/A	
(a) Any period that an entity estimates (without any restriction)	-	-	2	2 (8%)
(b) A period not exceeding a certain maximum period	12	-	-	12 (48%)
(c) A period not exceeding a certain maximum period, with a longer period being allowed when rebutted by reasonable explanations	2	5	-	7 (28%)
(d) A uniform period	-	-	-	-
(e) A uniform period, with a shorter or longer period being allowed when rebutted by reasonable explanations	1	1	-	2 (8%)
(f) Other	-	-	2	2 (8%)
Total number of respondents	**15**	**6**	4	**25 (100%)**

Appendix-III

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Appendix-IV

Summary of Major Findings from Academic Literature Review[17]

Table 1: Academic literature with regard to the value relevance of goodwill

I. Academic literature presented in the September 2014 IASB Board meeting

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
Aharony et al. (2010)	14 EU countries 2004-2005 (n=2,298)	**Title**：The Impact of Mandatory IFRS Adoption on Equity Valuation of Accounting Numbers for Security Investors in the EU **Theme** This study compared the value relevance of three accounting figures (i.e., goodwill, research and development expenses, and asset revaluation) in 14 European countries in the year prior to and the year of mandatory adoption of IFRSs (i.e., first IFRSs reporting period) by regressing the market value of equity. **Results** *<u>Value relevance of goodwill balance under IFRSs and national</u>*	➢ Boennen and Glaum (2014) pointed out that in many European countries goodwill arising from acquisitions had been immediately set off against reserves prior to the introduction of IFRSs, and that this study would not allow inferences regarding the relative value relevance of goodwill under the impairment-only approach over those under the amortisation and impairment approach. ➢ Considering that data in the first IFRSs reporting period was affected by a number of

[17] This list of summaries is not intended to explain each piece of research in a comprehensive manner.

[18] In this column, the ASBJ Staff provides its commentaries on each of the literatures. The commentaries encompass assumptions or limitations of studies that the ASBJ Staff believe would warrant attention, including those acknowledged by themselves, by Boennen and Glaum (2014) and Wersborg et al. (2014) (that is the academic literature that summarised the review results of the academic studies) and by the ASBJ Staff as it read the literatures. For some literatures, the ASBJ Staff highlighted findings of the studies, which the ASBJ Staff believed, would merit special attention.

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		GAAPs This study suggested that the adoption of IFRSs had increased the value relevance of the three accounting numbers (including goodwill) for equity securities investors in the EU. Among others, association tests in the study supported the hypothesis that the higher the deviation of the three domestic GAAP-based accounting items from their corresponding IFRSs values, the greater the incremental value relevance to investors from the switch to IFRSs.	factors (not just the change in accounting for goodwill), the ASBJ Staff noted that it is very difficult to properly control the effect of other factors (that is, factors other than the changes in accounting for goodwill) so as to conclude the degree of value relevance of accounting for goodwill under IFRS 3.
Chalmers et al. (2008)	Australia 2005-2006 (n=599)	**Title**：Adoption of International Financial Reporting Standards: Impact on the Value Relevance of Intangible Assets **Theme** This study compared the value relevance between goodwill measured under Australian IFRS (AIFRS) and goodwill measured under the Australian GAAP (AGAAP) by regressing the share price. AGAAP had been used prior to the AIFRS adoption, and it had permitted recognition of internally generated intangible assets (other than goodwill). **Results** *Value relevance of goodwill balance under AIFRS and AGAAP* This study suggested that AIFRS measures of goodwill were found	➢ This study acknowledged that severe multicollinearity was inherent in its analysis. ➢ The ASBJ Staff also noted that this study may also entail certain statistical limitations. For example, outliners were not eliminated such as through a Winsorizaton procedure, and variables used for regression analysis were not divided by total shares outstanding.

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		to have positive value relevance in comparison with their AGAAP measures.	
Chalmers et al. (2012)	Australia 1993-2007 (n=3,328 firm-years)	**Title**：Intangible assets, IFRS and analysts earnings forecast **Theme** This study investigated whether the adoption of AIFRS in 2005 by Australian firms had been associated with a loss of potentially useful information about intangible assets by investigating the association between intangible assets (including goodwill) and the degree of accuracy (or errors) and dispersion of analysts' earnings forecast. **Results** *Degree of negative association between the quality of earnings and aggregate reported amount of intangible assets (including goodwill) under AIFRS and AGAAP* This study found that the negative association between the accuracy (errors) and dispersion of analysts' earnings forecasts and aggregate reported intangibles became stronger subsequent to AIFRS adoption primarily for firms with high levels of underlying intangible assets. This study stated that the result owes much to the impairment-only approach of goodwill under AIFRS.　However, this study also	➢ Boennen and Glaum (2014) pointed out that one of the limitations of the study was that their total sample comprised only a relatively small sub-sample of IFRSs observations. Furthermore, it pointed out that the findings in this study may have been influenced by changes in analysts' behaviour or in a companies' information environment around the introduction of AIFRS (e.g., increased guidance or other investor-relations activities). ➢ The ASBJ Staff also noted this study did not control the effect of accounting changes other than those relating to goodwill at the adoption of AIFRS in Australia, thus, considers that drawing a conclusion as to whether or not the change of goodwill accounting alone improved analysts'

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		found that the negative association was weaker for firms that reported lower amount of intangibles measured under AIFRS than those measured under prior AGAAP.	earnings forecast would be difficult.
Oliveira et al. (2010)	Portugal 1998-2008 (n=354 firm-years)	**Title**：Intangible assets and value relevance: Evidence from the Portuguese stock exchange **Theme** This study assessed whether or not goodwill reported was associated with stock prices to explore the impact on value relevance of Portugal's adoption of IFRSs in 2005. **Results** *Value relevance of goodwill accounting balance under IFRSs and Portuguese GAAP* The evidence suggested that there was a positive effect on the value relevance of goodwill reported after adoption of IFRSs. However, while earnings were related positively to stock prices when Portuguese GAAP[19] was applied prior to 2005, the value relevance of earnings appeared to have declined after the adoption of IFRSs in 2005.	Boennen and Glaum (2014) noted that owing to the small size of the Portuguese capital market, the study surveyed a rather small sample size of 354 firms for the total period of 1998 to 2008.

[19] For the periods of the research, Portuguese GAAP required that goodwill be amortised over a maximum period of five years, unless a more extensive useful life (not exceeding 20 years) could be justified.

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
Sahut et al. (2011)	France, Sweden, Italy, UK 2002-2007 (n=1,855)	**Title**：Do IFRSs provide better information about intangibles in Europe? **Theme** This study employed multivariate regression models for a sample of 1,855 European listed firms in a six-year period, from 2002 to 2004 in local GAAP and from 2005 to 2007 in IFRSs to investigate the empirical relationships between the market value of European firms and the book value of their intangible assets. **Results** *Value relevance of goodwill balance under IFRSs and local GAAPs* This study found that European investors considered the financial information conveyed by capitalised goodwill to be less relevant under IFRSs than with local GAAP, while the informational value of other separately identified capitalised intangible assets was higher under IFRSs than those under local GAAP. This study attributed the findings to the effect that European investors did not assess the value relevance of intangible assets by making a distinction between goodwill and other intangible items.	➢ This study pointed out that differences in accounting practice persisted in different countries despite the use of common accounting standards (IFRSs), and that legal and regulatory country characteristics as well as market forces could still have a significant impact on the value relevance of accounting data. ➢ The ASBJ Staff observed this would mean that value relevance is not necessarily attributable solely to the accounting requirements but also an entities' financial reporting environment.
AbuGhazaleh et al.	UK 2005-2006	**Title** : The Value Relevance of goodwill impairments: UK Evidence **Theme**	➢ The ASBJ Staff noted the following: ・ This study would not allow inferences as to

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
(2012)	(n=528)	This study employed a multivariate ordinary least squares regression to assess the value relevance of goodwill impairment losses reported by UK firms following the adoption of IFRS 3. **Results** *Value relevance of goodwill impairment losses under IFRSs* This study revealed a significant negative association between reported goodwill impairment losses and market value, suggesting that these impairment losses were perceived by investors as a reliable measure to show a decline in the value of goodwill, and investors incorporated them in their firm valuation assessments. This survey provided evidence that managers are more likely to use their accounting discretion to convey privately held information about the underlying performance of the firms.	which approach is relatively superior between the impairment-only approach and the amortisation and impairment approach, because it did not compare financial information under the two approaches. For example, this study did not compare the degree of value relevance of impairment losses under the two approaches. ・ This study did not control situations in which goodwill impairment losses were not recognised. Thus, the evidence would have included the association between the share price and economic impairment where impairment losses were not recognised[20]. ・ The negative association between the stock price and impairment losses under the impairment-only approach does not

[20] The method of including entities that recognised no impairment losses into the study may be considered reasonable, because not recognising impairment losses itself may be considered as an important signal to investors (Ramanna and Watts (2012)). However, this study did not conduct the robustness checks as to how this sample selection criterion would affect their main results, which may supplement contrasting views. For details of the study on this effect, please refer to the summary of Laghi et al. (2013).

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
			necessarily mean the impairment losses were recognised in a timely manner. ➢ This study acknowledged statistical limitations such as standard econometric problems (e.g., errors in variables, omitted variables, sample selection bias) and the relatively shorter length of periods reviewed.
Amel-Zadeh et al. (2013)	UK 1997-2011 (n=4,052 firm-years)	**Title**：Has accounting regulation secured more valuable goodwill disclosures? **Theme** This study explored the degree of the link between the adoption of the impairment-only regime and changes in the value-relevance and timeliness of goodwill-related accounting amounts by regressing market data, based on the experiences unique to the UK. **Results** *Value relevance of goodwill impairment losses under the impairment-only approach of IFRSs and the amortisation and impairment approach of UK GAAP* ➢ The results of the study suggested that goodwill impairment losses under IFRSs were negatively associated with market	➢ The ASBJ Staff noted the following: ・ This study suggested that goodwill impairment losses under the impairment-only approach are less value relevant than those under the amortisation and impairment approach, primarily because the impairment was not recognised in a timely manner.　This study also noted that cumulative amortisation charge over long time horizons might behave similarly to those of impairment losses.　This may suggest that amortisation of goodwill would be necessary to capture the economic

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		values. However, this study also showed that a coefficient on the next year's goodwill impairment losses was about three times as large as those for the current year's goodwill impairment losses. ➢ This study showed that the coefficient on current year amortisation was statistically insignificant. However, this study found some evidence that IFRSs decreased the value relevance of impairment, which might indicate that investors assigned higher reliability to the more stringent impairment test under UK GAAP compared to IFRSs. ➢ This study noted that cumulative amortisation charges over long time horizons might behave similarly to the cumulative effect of impairment losses. However, the study found that, when the sample excluded firms that ever recorded impairment losses, cumulated amortisation charge had insignificant value relevance. *<u>Value relevance of goodwill balance under IFRSs and UK GAAP</u>* This study suggested that the goodwill balance was value relevant in the year of purchase, but that its value relevance decayed in subsequent years. The study considered that this could be	reduction of goodwill in a timely manner. ・ This study did not control situations in which goodwill impairment losses were not recognised.

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		additional evidence that goodwill is considered as a wasting asset by investors over longer time frames.	
Laghi et al. (2013)	France, Germany, Italy, Portugal, Spain, UK 2008-2011 (n=835)	**Title**：Assessing the Value Relevance of Goodwill Impairment Considering Country-Specific Factors: Evidence from EU Listed Companies **Theme** This study investigated whether the information relating to goodwill impairment was a relevant factor that influenced the investment decisions of market participants, having tested the statistical significance and the explanatory power of a multivariate regression model for estimating market stock prices of companies in different countries in the EU. **Results** *Value relevance of impairment losses under IFRSs* ➢ This study regressed share prices using two macro-samples: the first macro-sample (from 2008 to 2011 in UK) determined in accordance with the main criteria used by AbuGazaleh et al. (2012) and the second macro-sample (from 2008 to 2011 in France, Germany, Italy and UK). Unlike Sample 1, the second sample included only the companies that reported	➢ The ASBJ Staff observed the evidence of the study would infer that value relevance is not necessarily attributable solely to the accounting requirements but also to the entities' financial reporting environment. ➢ The ASBJ Staff noted that this study did not compare the degree of value relevance of impairment losses under the impairment-only approach and the amortisation and impairment approach. ➢ This study acknowledged some statistical limitations such as non-normality of residuals and misspecification.

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		impairment losses on goodwill, and excluded all of the situations in which the goodwill impairment was zero. ➢ In line with the findings of AbuGazaleh et al. (2012), the regression analysis on the first macro-sample (from 2008 to 2011 in UK) showed that a negative coefficient on goodwill impairment was statistically significant. However, the result of the regression analysis on the second macro-sample revealed that a negative coefficient on goodwill impairment was significant only for French companies (that is, the negative coefficient was not significant for companies from Germany, Italy and UK) when data were examined throughout the periods (2008-2011) by companies from each country. ➢ This study also found that, when data are considered by a period to period, a negative coefficient on goodwill impairment was significant only for the years of 2008 and 2009. ➢ Based on the evidence, this study concluded that the empirical results evidenced that country-specific factors had a significant influence on the investment decisions of market participants. This study also stated that the country differences were mitigated or less tangible when the economic cycle was	

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		stressed.	
Su and Wells (2014)	Australia 1998-2008 (n=309-367)	**Title :** The association of identifiable assets acquired and recognised in business acquisitions with post-acquisition firm performance **Theme** The objective of this study was to evaluate the association between identifiable intangible assets acquired and recognised in business acquisitions and post acquisition firm performance. Consideration was also given to whether the degree of association changed subsequent to transition to IFRSs when the 'opportunistic' incentives for recognising identifiable intangible assets were reduced. **Results** <u>*Value relevance of intangible assets and goodwill balances under IFRSs and AGAAP*</u> ➢ While there was no significant association between market-adjusted stock returns and identifiable intangible assets in the 3 years subsequent to the acquisition, there was weak evidence of an association between firm performance and goodwill, which continued subsequent to the transition to IFRSs.	➢ The ASBJ Staff also noted this study did not control the effect of accounting changes other than those relating to goodwill at the adoption of AIFRS in Australia, thus, considers that drawing conclusion as to whether, and if so how, the change of goodwill accounting affected the degree of association between an entity's performance and the balance of goodwill of the entity would be difficult. ➢ This study acknowledged a number of limitations, including the following: ・ This study did not use share market prices in assessing the value relevance. ・ This study did not attempt to categorise the identifiable intangible assets. In addition, the sample size used in the analysis was rather limited.

Studies	Sample	Summary	Commentaries of the ASBJ Staff[18]
		➢ This study noted that these results suggested that the results in prior research finding revealed a positive relation between identifiable intangible assets and firm value, and firm performance are most likely attributable to internally generated and revalued identifiable intangible assets. ➢ This study concluded that there was no empirical evidence supporting the present regulatory distinction between acquired, internally generated and revalued identifiable intangible assets.	

II. Additional academic literature selected by the ASBJ Staff

<table>
<tr><th>Studies</th><th>Sample</th><th>Summary</th><th>Commentaries of the ASBJ Staff</th></tr>
<tr><td>Hamberg and Beisland (2014)</td><td>Sweden 2001-2010 (n=2,052 firm-years)</td><td>Title：Changes in the value relevance of goodwill accounting following the adoption of IFRS 3

Theme
Using Swedish data, this study examined the value relevance of the effects of changes in goodwill accounting through the empirical analysis on the associations between goodwill accounting and stock prices and returns.

Results
<u>Value relevance of the amortisation and impairment approach as well as that of the impairment-only approach</u>
➢ This study showed that impairment losses reported under the amortisation and impairment approach were significantly related to stock returns during that period, although goodwill amortisations on stand-alone basis were not value-relevant prior to the adoption of IFRS 3. In addition, this study revealed that impairment losses were no longer statistically related to stock returns under the impairment-only regime in IFRS 3.
➢ This study observed that this lack of relationship between</td><td>➢ The ASBJ Staff noted the following:
・ This study suggested that impairment losses under the amortisation and impairment approach are more value relevant than those under the impairment-only approach.
・ This study suggested that the recognition of impairment losses is often delayed under the impairment-only approach.</td></tr>
</table>

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		impairment losses and stock returns might be due to the following: ・ Opportunities for earnings management seemed to have increased with the introduction of the impairment only approach. ・ Market participants perceived that recognition of impairment losses was a stronger signal of value reduction under the amortisation and impairment approach than those under the impairment only approach. ・ Investors paid less attention to recognition of impairment losses under the impairment only approach, because impairment losses were usually factored in the market prices before the announcement. *Timeliness of impairment losses under the amortisation and impairment approach (Swedish GAAP) and the impairment-only approach (IFRSs)* ➢ This study re-run the main model with future variables (one- and two-year ahead) as additional explanatory variables. The alternative specifications did not alter any main result on *current* goodwill impairments.	

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		➢ In both return model and price model regressions, the coefficients on future impairments are not significant under the Swedish GAAP, whereas under the IFRSs, coefficients for one- and two-year ahead impairments are significant. This would mean that these results provided some support to the notion that the value relevance of goodwill impairments disappeared under the IFRSs because impairments became untimely.	
Hulzen et al. (2011)	Germany, France, Spain, Dutch 2001-2010 （n=2,091 and 2,263 firm-years）	**Title**：Amortisation Versus Impairment of Goodwill and Accounting Quality **Theme** This study compared the degree of value relevance and timeliness of financial information under the amortisation and impairment approach and the impairment-only approach, using the sample data consisting of European companies. **Results** *Value relevance of impairment losses and amortisation of goodwill under the amortisation and impairment approach and the impairment-only approach* The results of this study indicated that impairment of goodwill under the impairment-only approach was less value relevant than	➢ The ASBJ Staff noted the following: ・ This study revealed that ‘impairment losses’ under the impairment-only approach is not more value relevant than ‘amortisation charge’ under the amortisation and impairment approach. ・ This study did not compare the degree of value relevance and timeliness of ‘impairment losses’ under the two approaches: the impairment-only approach and the amortisation and impairment approach. Instead, this study assessed the value relevance of different expenses:

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		amortisation charges under the amortisation and impairment approach. Specifically, this study revealed that the coefficients on the amortisation variable were all positive, which may have meant that an increase in goodwill amortisation led to an increase in share price and the value of the company. *<u>Timeliness of amortisation charge under amortisation and impairment approach and impairment losses under the impairment-only approach</u>* Having compared the degree of association between the returns on share prices and earnings on share price, the results of the timeliness test showed increased timeliness for the impairment losses under the impairment-only approach in comparison with the amortisation charge under the amortisation and impairment approach. This is evidenced by the fact that the coefficients on returns under the impairment-only approach close to the reporting date were higher than those under the amortisation and impairment approach, and that the explanatory power of the model under the impairment-only approach were higher, compared with those under the amortisation and impairment approach.	'amortisation charge' under the amortisation and impairment approach and 'impairment losses' under the impairment-only approach. ➢ The ASBJ Staff also noted that the model in this study did not compare the timeliness on impairment losses and amortisation that were recognised under the different approaches, and instead compared the timeliness of recognition of impairment losses and amortisation charge using the data on earnings reported under the different reporting regimes. ➢ This study acknowledged that, although the sample size was increased in comparison to other studies that examined the effects of IFRS 3, the sample size was still rather small.
Chambers (2007)	US 2003-2005	**Title**：Has Goodwill Accounting under SFAS 142 Improved	➢ The ASBJ Staff noted the following:

Studies	Sample	Summary	Commentaries of the ASBJ Staff
	(n=5,262 firm-years)	Financial Reporting? **Theme** This study tested whether changes to goodwill accounting resulting from SFAS 142 (that is the introduction of a new requirement to perform annual impairment testing and the abolition of amortisation of goodwill) resulted in improved financial reporting, by regressing stock price to compare the degree of value relevance of 'as-reported' figures in accordance with SFAS 142 to 'as-if' accounting numbers produced by alternative goodwill accounting methods.　The alternative methods employed in this study included (a) a systematic goodwill amortisation with no annual impairment test, (b) a combination of amortisation and impairment, and (c) a system with no amortisation and impairment. **Results** *<u>Value relevance of impairment losses under the impairment-only approach (which requires annual impairment testing)</u>* This study found that the introduction of annual impairment testing of goodwill has improved the quality of financial reporting, while the quality of financial reporting has become worsened by eliminating the requirement of systematic amortisation.	・ This study found that the introduction of annual impairment testing of goodwill increased the value relevance of financial reports, and that the elimination of systematic amortisation has reduced the value relevance of financial reports. ・ As its limitation, this study acknowledged that the amortisation-based accounting used in this paper imposed the same amortisation rates on goodwill for all firms, even though entity-specific knowledge should have been factored in determining their useful lives. In addition, this study also acknowledged the short time period it covered as one of the limitations. ➢ This study pointed out that a research design that compares reported numbers prior to adoption of SFAS 142 with those after adoption of SFAS 142 would entails difficulties in interpreting the results,

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		In addition, this study noted that accounting numbers produced by a system that required both systematic amortisation and annual impairment testing were more value relevant than those produced by systems requiring just impairment or amortisation.	because there are numerous different factors other than amortisation of goodwill (e.g., the use of pooling-of-interest method).
Li, Z.et al. (2011)	US 1996-2006 (n=1,584)	**Title**：Causes and consequences of goodwill impairment losses **Theme** This study considered (a) the reaction of market participants to the announcement of a goodwill impairment loss, (b) the nature of the information conveyed by the impairment loss, and (c) whether a cause of goodwill impairment can be traced back to overpayment for targets at the time of prior acquisitions, using data under the three different reporting regimes (that is, before adoption of SFAS 142, transition period and after adoption of SFAS 142). In drawing conclusions, this study carried out empirical analysis of the association between abnormal returns, future sales growth and future operating income growth and impairment losses. **Results** *<u>Value relevance of goodwill impairment losses</u>* ➢ The study found that both investors and financial analysts	➢ The ASBJ Staff observed that this study considered that goodwill impairment losses were value relevant but the value relevance decreased after the introduction of the impairment-only approach under SFAS 142. ➢ The ASBJ Staff noted that this study controlled the following factors: ・ Whether a company recognised impairment losses or not; and ・ Whether impairment losses may have been expected in the market or not.

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		revise their expectations downward on the announcement of an impairment loss. ➢ The study also found that the negative impact of the impairment losses was lower in the periods after SFAS 142 was adopted, compared with those during before adoption of SFAS 142 and the transition periods. This study observed that the lower market impact was because goodwill impairment losses were smaller in magnitude and occurred on a more frequent basis under SFAS 142, and therefore the impairment losses might be perceived by investors as a systematic reduction in the goodwill asset over time (similar to goodwill amortisation under the approach adopted before the issuance of SFAS 142). *Nature of the information conveyed by impairment losses* ➢ This study found that the association between impairment losses and a company’s future performance was negative and significant before and after SFAS 142 was adopted, and that negative correlation between impairment loss and future performance was even higher after the adoption of SFAS 142 than before.	

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		➢ In addition, having considered that goodwill impairment losses were negatively correlated with the average growth in sales and operating profits of subsequent periods, this study considered that the market reaction can be attributed to news about the decline in subsequent sales and operating profits, which were later communicated by recognition of impairment losses. Thus, this study explained that announcements of the recognition of impairment losses in the post-period had lower "news" value for investors. *Causes of goodwill impairment losses* ➢ Based on the samples tested, this study considered that recognition of goodwill impairment losses may have been caused by initial overpayment for recent acquisitions and partly by subsequent negative events.	
Li, K.K.and Sloan (2014)	US 1996-2011 (n=29,485[21])	**Title**：Has Goodwill Accounting Gone Bad? **Theme** The study investigated the impact of the introduction of SFAS 142 on the accounting for valuation of goodwill. Specifically, this study tested the timeliness of impairment losses and whether	➢ The ASBJ Staff noted that this study suggested that the impairment-only approach led to recognition of untimely impairment losses of goodwill, and resulted in overstatement of goodwill and earnings.

[21] This number of the sample consists of impairment observations (3,883) and non-impairment ones (25,602).

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		goodwill and earnings were overstated under SFAS 142. **Results** *Timeliness of impairment losses under the impairment-only approach of SFAS 142* ➢ The study indicated that introduction of SFAS 142 resulted in the delay in recognition of goodwill impairment losses by approximately two to three years, having analysed operating performance and the share price. ➢ This study considered that in practice, managers used greater discretion under SFAS 142 to delay the reporting of goodwill impairment losses, which resulted in overstatement of goodwill and earnings. *Impact on investors' decision* ➢ This study suggested that investors efficiently anticipated the delayed goodwill impairment under the amortisation and impairment approach of SFAS 121; and in contrast, the inflated earnings and goodwill balance misled investors after SFAS 142 was adopted. *Conclusion*	Consequently, this study considered that the amortisation and impairment approach would better reflect the underlying economics.

Studies	Sample	Summary	Commentaries of the ASBJ Staff
		➢ All in all, this study concluded that the amortisation and impairment approach led to goodwill carrying values that better reflected the underlying economics and resulted in more efficient security prices.	

Table 2: Academic literature that studied periods over which excess earning power would diminish

Studies	Summary
Jennings et al. (2001)	This article discussed a study which surveyed data of U.S. publicly traded companies that reported goodwill assets in the period of 1993 to 1998. The study reported that earnings before goodwill amortisation can explain the observed distribution of share prices better than earnings after goodwill amortisation. The study also found that goodwill amortisation adds noise to the analysis of share valuations based on earnings alone. The study stated that these results suggest that abolishing goodwill amortisation would not reduce the usefulness of earnings
Fama and French (2000)	This article discussed a study that tested data in the period of 1964 to 1995. The study found evidence that profitability is mean reverting (in a simple partial adjustment model, the estimated rate of mean reversion is about 38% per year). The study also concluded that the rate of mean reversion is faster when profitability is below its mean and when it is far from its mean in either direction. The study also found that there is also a predictable variation in earnings; in particular, the study reported that negative changes in earnings and extreme changes tend to reverse faster
Bugeja and Gallery (2006)	This article discussed a study that surveyed 475 Australian companies in the periods of 1995 to 1999[22]. The study classified goodwill into those acquired in the previous two years, and those acquired three or more years ago. The study reported that the analysis showed that goodwill acquired in the observation period and each of the prior two years was positively associated with entities' values, but there was no meaningful level of association between goodwill acquired more than two years ago and the entities' values. The study concluded that the absence of a meaningful relationship may suggest that goodwill recognised more than two years ago was not considered as an asset by investors.
Ojala (2007)	This article discussed a study that conducted analysis on 114 Finnish companies. The study concluded that the evidence showed that the value of information about the goodwill balance, the amortisation expense and related impairment losses was more relevant if an entity applied an amortisation

[22] Prior to the adoption of IFRSs in January 2005, under Australian accounting standards, acquired goodwill was subject to amortisation over a period not exceeding 20 years on a straight-line basis, and the balance of goodwill was required to be reviewed annually and written down to the extent that future economic benefits were no longer probable.

Studies	Summary
	period of less than 5 years rather than using a longer period as an amortisation period. The study concluded that the practice of goodwill amortisation provided relevant information to investors, when amortisation periods were kept sufficiently short in order to better reflect the economic life of the underlying assets;
Obinata (2013)	This article reported the outcome of his study which showed that the value of goodwill generally corresponds to the size of excess earning power over its mean in the industry. The study therefore concluded that goodwill should be amortised systematically, if the profitability is mean reverting and the excess earning power diminishes in a consistent manner. As a result of analysis on sample data of Japanese companies, this study further concluded that a positive goodwill balance should be amortised periodically over five to ten years, so as to reflect the underlying economic substance.
Healy et al. (2011)	This study examined how cross-country differences in product, capital, and labour market competition, and government efficiency affect the rate of mean reversion of corporate profitability. The study examined ROE mean reversion for the five countries with the least competitive product markets (lowest decile) and the five countries with the most competitive product markets (top decile). The study found that firms with extreme positive ROEs (the top decile) can expect to see their ROE fall to 10% within 3 (5) years if they were domiciled in countries with highly competitive product markets, versus 5 (8) years if they were in the least competitive markets.
Nissim and Penman (2000)	This study explored the period of the mean reversion for decile portfolios formed on excess operating profit. The study found that, while excess operating profit for most decile diminished within 5 to 10 years, excess operating profit for the highest decile remained over 10 years.
Palepu and Healy (2012)	This study reported the period of the mean reversion for quintile portfolios formed on excess operating return on equity (ROE). The study showed that excess operating return on equity diminished to most extent from 5 to 10 years for every quintile.

Appendix-V

Excerpt from the result of the SAAJ's questionnaire to its members

Q2 : As part of the Exposure Draft (ED) of the Japans Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications, ASBJ Modification Accounting Standard ED No. 1 *Accounting for Goodwill* proposed to make 'deletions or modifications' to the requirement in IFRSs relating to non-amortisation, in order to require amortise goodwill, as does Japanese GAAP. Do you agree with the proposal? (**Question 4** of JMIS Exposure Draft)

Responses	Number of respondents	Percentage
(a) Agree	**27**	**64.3%**
(b) Disagree	10	23.8%
(c) Neither	5	11.9%
Total	42	100.0%