IASB Research Forum 2025
Accounting Horizons

Discretionary Impairments of Finite and Indefinite Intangible Assets

Krishnan, Liss, Mohrmann, and Riepe (2025)

Discussion:
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IN A NUTSHELL

- The paper examines the determinants of finite and indefinite intangible impairments

Findings:

- Finite, indefinite, and goodwill intangibles are impaired at different times
- Impairments of indefinite-lived intangibles and goodwill are largely driven by reporting quality indicators, whereas finite-lived intangible impairments show little association with reporting quality
- Instead, finite-lived intangible impairments are primarily explained by deteriorating business fundamentals
- Internal monitoring mechanisms (e.g., board expertise and governance quality) enhance the timeliness of impairments for indefinite intangibles and goodwill

STRONG POINTS

- It disaggregates intangibles in finite vs. indefinite
- It uses a unique hand-collected dataset
- The results directly inform IASB/FASB debates about simplifying or reforming impairment testing

BENCHMARKING AGAINST GOODWILL

Conceptually:

• Economically different assets -> goodwill impairment reflects fundamentally different economics from a finite or indefinite intangible impairment

• Testing level and aggregation (reporting unit, individual asset, and asset group level)

= > The economic relevance and managerial discretion differ substantially

Should we then expect the same determinants?

BENCHMARKING AGAINST GOODWILL

Empirically:

- Comparing coefficients from three models with different dependent variables
- Different base rates, different variance
- Complementary benchmarks: expected impairment?

Move beyond goodwill benchmark

INITIAL PURCHASE PRICE ALLOCATION

- Managers have substantial discretion in PPA allocations
- The classification between definite and indefinite-lived intangibles is also discretionary

- Prior literature:
  - Zhang and Zhang (2013); Ashby et al. (2024).

- Do impairments partly reflect corrections of initial allocations?

- Table 4 helps,
  - However, the magnitude of discretion may be overstated, as the paper assumes that managerial gaming only begins at the subsequent valuation of intangible assets

JOINT DECISION TO IMPAIR INTANGIBLE ASSETS

- The decision to impair intangible assets is a joint decision
  - Mechanical linkages (reporting unit carrying value)
  - Indefinite intangible impairments: 61.67% occur with goodwill impairment, only 8.14% occur without goodwill impairment

    => Are the errors corelated?

Use a seemingly unrelated regression approach to jointly examine impairment of definite, indefinite, and goodwill assets

RESEARCH DESIGN

- **Strengthen the causality claim:**
  - Reverse causality might be a concern for some variables
  - Reporting quality/Business characteristics and intangible assets impairments could simultaneously be affected by other variables (e.g., manager's private information about asset overvaluation, true economic impairment needed, acquisition characteristics…)
- Suggestion: Impact Threshold for a Correlated Variable (Frank, 2000)

MISCELLANEOUS

- Could you provide more detail on the specific types of indefinite/definite-lived intangibles in your sample (e.g., trademarks, brands, in-process R&D, licenses, etc.)?

- Please include a more conceptual discussion of why reporting quality in year *t* would be expected to influence impairment decisions in *t + 1*

- The weaker association with reporting quality might not necessarily indicate less discretion; rather, it could reflect fewer opportunities for discretion if amortization has already reduced the carrying value

- Consider using the logarithm of the number of analysts as a control variable

MISCELLANEOUS

- Should firms with negative market-to-book ratios ($mtb < 0$) be excluded from the analysis?
- Why is R&D scaled by total assets rather than by sales
- Finite intangibles are “more aligned with business characteristics,” yet Table 3 indicates that finite intangible impairments also respond to Audit Opinion and Earns Bath, suggesting potential overlap in determinants
- Several coefficients flip sign between Panel A and Panel B; some discussion of this would be helpful

MISCELLANEOUS

- Section 4.3 could be developed further conceptually. For example, why should accounting expertise be expected to matter specifically for indefinite intangibles but not for finite ones

- Provide more conceptual development on why reporting quality differs across asset types

- In Panel B, the dependent variable is a bounded continuous measure. You might consider estimating a fractional probit or logit model (Papke and Wooldridge, 2008) to account for this feature

GOOD LUCK WITH THE PAPER!