Staff paper

IASB Agenda reference 18A | FASB Agenda reference 18A

FASB | IASB Joint Education Meeting

Date	**30 September 2022**
Project	**Identifiable Intangible Assets and Subsequent Accounting for Goodwill**
Topic	**Recent Project Developments**
Contacts	**Joy Sy (jsy@fasb.org),** **Sally Bishop (sbishop@fasb.org),** **Jeff Mechanick (jdmechanick@fasb.org)**

This paper has been prepared for discussion at a public educational meeting of the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). It is not intended to represent the views of the boards or any individual member of either board or the staff. Comments on the application of IFRS® Accounting Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Accounting Standards or US GAAP. Tentative technical decisions are made in public and reported in FASB Action Alert or in IASB Update. Official positions of the FASB or the IASB are determined after extensive due process and deliberations.

Board Leanings

- FASB staff brought the following topics to the Board for deliberation:
  - Amortization of goodwill
  - Goodwill impairment model
  - Accounting for identifiable intangible assets
  - Presentation of goodwill amortization and impairment losses in the financial statements
- Board provided the following leanings:
  - An entity should amortize goodwill on a straight-line basis.
  - An entity can amortize goodwill over a 10-year default amortization period or it can elect another amortization period if that period can be justified based on acquisition facts and circumstances (subject to a cap of 25 years).
  - An entity would not be permitted to reassess the amortization period.
  - Customer relationships that are not separable should be subsumed into goodwill.
  - Goodwill should continue to be tested for impairment at the reporting unit level when indicators exist (minimum annual test requirement would be removed).
  - Goodwill amortization and impairment losses should be presented as separate line items in the same location in the income statement.

Recent Developments

- At its meeting on June 15, 2022, the Board reviewed the package of leanings provided to date and decided to deprioritize and remove the project from its technical agenda.
- Overall Board member feedback:
  - Most Board members expressed general agreement that the current impairment only model does not necessarily align with when and how an entity expects to realize the economic benefits of a business combination and if not addressed, a pervasive need to improve GAAP will continue to exist.
  - While this issue may persist without changes to GAAP, the amortization-with-impairment approach that has been tentatively developed does not sufficiently rebalance the benefits and costs in a way that creates a compelling case for change at this time (see next slide).
  - Despite extensive staff research and analysis, revisions to specific elements of the proposed approach that may result in a model that a majority of the Board would support could not be identified at this time.
  - User feedback broadly suggests that technical projects addressing business combination-related accounting matters should not be a top priority for the Board (relative to other emerging areas where better financial reporting is perceived to be critical).

Rebalancing Benefits and Costs

- Most Board members believed that the information derived from the proposed approach would not significantly change the decision usefulness of reported information as compared with the current model.
- While Board members believed that amortizing goodwill may reduce preparer costs, several Board members questioned the magnitude of those cost savings given the mixed leanings on several specific elements of the proposed model.
- Some Board members highlighted that capital market participants may incur meaningful costs to sufficiently understand the effect of such a significant accounting change, including how goodwill-related income statement charges are presented.
- Several Board members observed that the potential benefits of the proposed approach may not overcome the costs associated with potential divergence from IASB guidance.