FASB Agenda ref	18
IASB Agenda ref	18

STAFF PAPER

23 July 2021

FASB | IASB Joint Education Meeting

Project	Identifiable Intangible Assets and the Subsequent Accounting for Goodwill (FASB) / Goodwill and Impairment (IASB)		
Paper topic	Cover paper		
Contacts	Craig Smith	csmith@ifrs.org	020 7246 6410
	Joy Sy	jsy@fasb.org	203 956 5358

Purpose of This Paper

1. Both the FASB and the IASB have on their respective agendas projects covering the accounting for goodwill and intangible assets acquired in a business combination. Those projects do not constitute a joint project. However, both Boards previously decided to monitor each other's work because of the largely converged accounting models for business combinations.

2. The purpose of this meeting is to provide an opportunity for the FASB and the IASB members to discuss:

   (a) The objective and scope of their respective projects;

   (b) Similarities and differences in feedback received on the FASB's Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* (ITC) and the IASB's Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (Discussion Paper); and

   (c) The tentative decisions that the FASB has made to based on the feedback received to date.

3. The Boards are not being asked to make any decisions.

Structure of the Paper

4. The paper is structured as follows:

   (a) Summary of meeting papers (paragraphs 6–7); and

   (b) Questions for the boards.

5. Appendix A contains a comparison of applicable requirements for impairment testing in IFRS Standards and US GAAP.

Summary of the papers for the meeting

6. This cover paper accompanies the following Agenda Papers, which are in the format of slides:

   (a) *FASB Agenda Paper 18A—Identifiable Intangible Assets and Subsequent Accounting for Goodwill*. This paper summarises feedback that the FASB received on its ITC, subsequent outreach efforts and the tentative decisions made by the FASB as at the end of June 2021.

   (b) *IASB Agenda Paper 18B—Business Combinations—Disclosures, Goodwill and Impairment*. This paper summarises feedback that the IASB received on its Discussion Paper.

7. The papers are structured similarly to allow the FASB and IASB members to compare the projects' objectives and scopes and the feedback each Board has received.

Questions

Question 1—Project Objectives and Scope
Do the FASB or IASB members have any questions or comments on the feedback on the project objectives and scope? What do the FASB and IASB members consider to be the key differences or similarities between the objective and scope of the Boards' respective projects?

Question 2—Subsequent Accounting for Goodwill
Do the FASB or IASB members have any questions or comments on the feedback on the subsequent accounting for goodwill for either project? What do the FASB and IASB members consider to be the key differences or similarities of the feedback on the subsequent accounting for goodwill for the Boards' respective projects?

Question 3—Disclosures about Business Combinations and Goodwill
Do the FASB or IASB members have any questions or comments on the feedback on the disclosures about business combinations and goodwill for either project? What do the FASB and IASB members consider to be the key differences or similarities of the feedback on disclosures about business combinations and goodwill for the Boards' respective projects?

Question 4—Intangible Assets Acquired in a Business Combination
Do the FASB or IASB members have any questions or comments on the feedback on intangible assets acquired in a business combination for either project? What do the FASB and IASB members consider to be the key differences or similarities of the feedback on the intangible assets acquired in a business combination for the Boards' respective projects?

Appendix A—Comparison of Applicable IFRS Standards and US GAAP

A1. The Boards may find the following summary of differences between IFRS Standards and US GAAP helpful background information.

A2. The requirements for accounting for business combinations are largely converged. However, the requirements for accounting for impairment of non-financial assets are not converged, and the following table summarises the key differences.

	IFRS Standards	***US GAAP***
Frequency	Goodwill, intangible assets with indefinite life and intangible assets not yet available for use are tested quantitively for impairment annually and whenever there is an indication that they may be impaired. The annual test may be performed at any time during the year provided it is performed at the same time each year. Impairment testing for all other assets within the scope of IAS 36 is required when there is any indication of impairment.	Impairment testing of long-lived assets (finite life) is required when events occur that indicate long-lived assets may not be recoverable. Goodwill and intangible assets with indefinite life are tested for impairment on an annual basis and upon a triggering event. The annual goodwill impairment test may be performed any time during the year provided it is performed at the same time each year. US GAAP does not specifically require the annual impairment test to be performed at the same time each year for indefinite-lived intangible assets. For private and not-for-profit entities that elect to amortize goodwill, impairment testing would be performed upon a triggering event, rather than annually. Additionally, private and not-for-profit entities have the option to perform their goodwill triggering event evaluation at the end of the reporting period, whether interim or annual, rather than on a specific event date.
Unit for non-financial assets / Units for assets other than goodwill	Depending on the circumstances, assets are tested for impairment as an individual asset or as part of a cash generating unit (CGU). When possible, an impairment test is performed for an individual asset.	Generally, indefinite-lived intangible assets are tested for impairment individually unless separately recorded indefinite-lived intangible assets operate as a single unit

	IFRS Standards	*US GAAP*
	Otherwise, assets are tested in CGUs. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.	(essentially inseparable from one another). Long-lived assets are tested for impairment at an asset group level. An asset group is the lowest level for which there are identifiable cash flows that are largely independent of the net cash flows of other groups of assets.
Unit for goodwill	For testing goodwill for impairment, goodwill is allocated to a CGU, or group of CGUs. Each unit or group of units is required to reflect the lowest level at which goodwill is monitored for internal management purposes and shall not be larger than an operating segment.	Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment. For private and not-for-profit entities that elect to amortize goodwill, impairment testing can be performed at an entity level or at a reporting unit level.
Allocation of goodwill	Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. Goodwill has to be reallocated to the affected CGUs if there is a reorganisation of reporting structure.	Goodwill is allocated to reporting units that are expected to benefit from the synergies of the business combination from which it arose. Goodwill can be reassigned when there is a reorganization of reporting structure.
Allocation of impairment	An impairment loss for a CGU is allocated first to any goodwill and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. The amount of loss allocated to other assets in the CGU should not reduce the carrying amount of those assets below their recoverable amount.	A long-lived asset impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. That loss should be allocated within the asset group on a pro rata basis using each long-lived asset's relative carrying amount. However, the loss allocated to an individual long-lived asset should not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. Goodwill impairment loss is measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill.

	IFRS Standards	***US GAAP***
Reversals	Reversals of impairment are prohibited for goodwill but if they arise are required for all other assets.	Reversals of impairments are prohibited.
Impairment testing model(s)	One-step impairment test for all assets within the scope of IAS 36. The carrying amount of an asset or CGU is compared with its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. In measuring the recoverable amount at a test date, an entity could roll-forward the most recent detailed calculation of recoverable amount made in a preceding period if it satisfies specified criteria. The impairment loss is measured as the difference between carrying amount and recoverable amount.	Different models for goodwill, indefinite-lived intangible assets and long-lived assets. *<u>Goodwill</u>* A one-step (quantitative) annual impairment test is required for all entities. The carrying amount of a reporting unit is compared with its fair value. The impairment loss is measured as the excess of the carrying amount over the fair value of the reporting unit. The loss recognized cannot exceed the carrying amount of goodwill. <u>Optional qualitative assessment:</u> An entity may first assess qualitative factors to determine whether the quantitative goodwill impairment test is necessary. If the entity determines, based on the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is below its carrying amount, the quantitative impairment test is performed. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed to the quantitative test. <u>Goodwill Accounting Alternatives:</u> Private and not-for-profit entities have the option to amortize goodwill on a straight-line basis over 10 years or less if the entity demonstrates that another useful life is more appropriate. For entities that elect to

	IFRS Standards	US GAAP
		amortize goodwill, impairment testing would be performed upon a triggering event, rather than annually, and can be performed at an entity level or at a reporting unit level. Additionally, private and not-for-profit entities have the option to perform their goodwill triggering event evaluation at the end of the reporting period, whether interim or annual. *Indefinite-lived intangible assets* One-step impairment test. The carrying amount of an asset is compared with its fair value. The impairment loss is recognized as the excess of the carrying amount over the fair value of the asset. An entity could perform an optional qualitative assessment, similar to the one used for goodwill. *Long-lived assets* The asset group is first tested for recoverability. If the carrying amount is lower than the undiscounted cash flows, then the asset group is recoverable and no impairment loss is recognized. If the asset group is not recoverable, the impairment loss is the amount by which the carrying amount of the asset group exceeds its fair value.