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IASB Agenda ref	18

STAFF PAPER

19 November 2020

FASB | IASB Joint Education Meeting

Project	**Identifiable Intangible Assets and the Subsequent Accounting for Goodwill (FASB) / Goodwill and Impairment (IASB)**
Paper topic	Cover Paper

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Purpose of this paper

1. The purpose of this meeting is to provide both boards with an update of the work performed regarding their respective projects. The meeting will give members of the boards an opportunity to ask questions about the projects—with particular focus on (a) disclosures; (b) the subsequent accounting for goodwill; and (c) other topics, for example intangible assets recognised in a business combination.

2. The boards are not being asked to make any decisions.

Structure of the paper

3. The paper is structured as follows:

   (a) summary of meeting papers (paragraph 5);

   (b) brief introduction to the projects (paragraphs 6–10); and

   (c) questions.

4. Appendix A contains a comparison of applicable IFRS Standards and US GAAP requirements.

Summary of the meeting papers

5. This cover paper accompanies the following Agenda Papers:

   (a) *FASB Agenda Paper 18A—Identifiable Intangible Assets and Subsequent Accounting for Goodwill*. This paper provides a summary of feedback the FASB received on its Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* and the decisions made by the FASB at its meeting in July 2020. The FASB staff will also provide a verbal update of the decisions made by the FASB in its recent meetings in November 2020.

   (b) *IASB Agenda Paper 18B—Business Combinations—Disclosures, Goodwill and Impairment*. This paper sets out a summary of the initial feedback the IASB has received on its Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*. The comment letter deadline for the Discussion Paper is 31 December 2020 and so this paper does not contain all feedback received on the Discussion Paper.

Brief introduction to the projects

6. Both the FASB and the IASB have on their respective agendas projects covering accounting for goodwill. 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.

7. The FASB's project is in an active project phase while the IASB's project is in a research phase.

8. The objective of the FASB's project is to revisit the subsequent accounting for goodwill and identifiable intangible assets broadly for all entities. This includes considerations for improving the decision usefulness of the information and rebalancing the cost benefit factors.

9. The objective of the IASB's project is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make.

10. See Agenda Paper 18A for more background on the FASB's project and its Invitation to Comment. See Agenda Paper 18B for more background on the IASB's project and its Discussion Paper.

Questions

Question 1
Do FASB or IASB members have any questions or comments about the disclosures aimed at providing investors with better information about business combinations included in the boards' projects?

Question 2
Do FASB or IASB members have any questions or comments about the subsequent accounting for goodwill aspects of the boards' projects?

Question 3
Do FASB or IASB members have any questions or comments about other aspects of the boards' projects—for example about the recognition of identifiable intangible assets in a business combination?

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.

A2. The requirements on accounting for business combinations are largely converged. However, the requirements on accounting for impairment of non-financial assets are not, as summarised in the following table.

	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.
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. Otherwise, assets are tested in CGUs. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the	Generally, indefinite-lived intangible assets are tested for impairment individually unless separately recorded indefinite-lived intangible assets operate as a single unit (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

	IFRS Standards	***US GAAP***
	cash inflows of other assets or groups of assets.	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.
Reversals	Reversals of impairment are prohibited for goodwill but if they arise are required for all other assets.	Reversals of impairments are prohibited.

	IFRS Standards	*US GAAP*
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. *Goodwill* 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. Optional qualitative assessment: 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. Examples are provided of events and circumstances that an entity would need to consider in performing the qualitative impairment test. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed to the quantitative test. Accounting Alternatives: 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

	IFRS Standards	*US GAAP*
		appropriate. For entities that elect to 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. *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.