FASB

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

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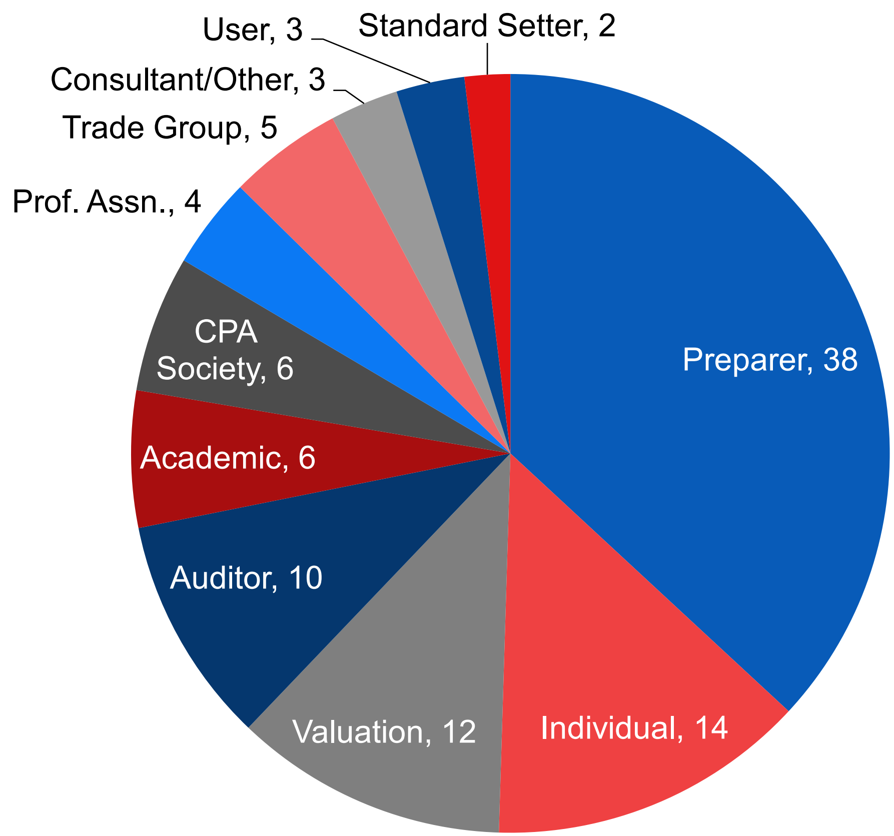
Outreach Efforts (ITC and Other)

Invitation to Comment (ITC) Respondent Types:



Note: As of June 30, 2021, 105 comment letters were received in response to the 2019 ITC. Two letters were rescinded.

Additional Stakeholder Outreach:

- Since the project has been added to the agenda, the staff has held over **90 outreach meetings** (including more than 30 meetings with users).
- The staff also has held approximately 15 meetings with advisory groups and 10 meetings with industry group stakeholders.
- Outreach was performed with more than **225 participants** from various stakeholder groups.

Note: Additional stakeholder outreach performed between October 2018 (when the project was added to the agenda) and June 2021.

General User Views

Goodwill impairment is decision useful

- Some strongly oppose amortization and favor the current impairment-only model because current U.S. GAAP is used either qualitatively or quantitatively to assess management and the performance of an acquisition.

Goodwill impairment is decision useful, but willing to consider changes for cost-benefit reasons

- Some are open to an amortization model because information can be accessible from other parts of the financial statements or other information sources.

Indifferent to an accounting change

- Some are indifferent because both goodwill impairment charges and goodwill amortization are adjusted in non-GAAP measures.
- Some are generally indifferent to any accounting change because of the limited effect on their models used to analyze companies.

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Objective and Scope

Objective and Scope

Objective	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.
Scope	New guidance would apply to all entities with additional considerations for private companies and non-for-profit entities.

Objective and Scope

Overall Message	Stakeholders commented that, despite the Board's changes to the goodwill impairment model, the test continues to impose **undue cost and complexity** in the system while providing users with information that is **"too little, too late."**

Feedback received on prior amendments to U.S. GAAP

- **Step 0 (qualitative screen)** Although the qualitative screen was designed for entities that have significant headroom between CV and FV, in practice, entities are finding that they still need to perform the quantitative test to support their Step 0 evaluations every few years. Increased cost (more documentation and support) has been observed for entities that had marginal difference between CV and FV.
- Although a majority of ITC respondents noted that **eliminating Step 2** reduced costs, views were mixed on whether eliminating Step 2 affected the information utility of impairment information.

Objective and Scope

Overall Message	Mixed views on whether the project will achieve the right balance between reducing cost to preparers and maintaining informational value to users.

Overall

Feedback received

- Stakeholders commented that the project should not focus solely on simplification efforts, and financial statement users consistently expressed desire for more information.
- Users of financial statements appear to be utilizing goodwill impairment test results as a proxy for assessing the success/failure of an acquisition and for assessing management's stewardship and ability to allocate invested capital.

Feedback Received and Tentative Decisions

Tentative Decisions

- **December 2020** **-** The Board tentatively decided that:
  1. An entity should amortize goodwill on a **straight-line basis**.
  2. An entity should amortize goodwill over a **10-year default** period, unless an entity elects and justifies another amortization period based on its facts and circumstances.
  3. An entity that elects another amortization period would be **subject to a cap** (to be determined).
  4. An entity would **not be required to reassess** the amortization period.

- **April 2021** - The Board directed staff to perform additional research and outreach on:
  1. **Users' perspectives** on what types of intangibles provide decision-useful information to inform future discussions on whether certain **identifiable intangibles** should be subsumed into goodwill as well as whether certain intangibles should be recognized separately from goodwill.
  2. Certain factors that may be used to estimate the useful life of goodwill, including management's **estimated payback** period.

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Additional Discussions

- **<u>June 2021</u>** – The Board discussed potential changes to the existing goodwill impairment model, including:
  - Unit of account at which goodwill is tested for impairment,
  - Frequency of goodwill impairment testing, and
  - Timing of goodwill trigger event evaluations.

- The Board made no decisions during the meeting.

Goodwill Amortization

Goodwill Amortization

ITC and Other Feedback	Overall, stakeholders presented diverse, **mixed views** on amortization and impairment both in the ITC responses and during subsequent outreach. More than half of the ITC respondents supported amortization of goodwill, including some financial statement users. However, many others supported the impairment-only model.
Board's Tentative Decisions	Board tentatively decided: ▪ An entity should **amortize goodwill** on a straight-line basis, ▪ Over a **10-year default period**, unless an entity elects and justifies another amortization period based on its facts and circumstances ▪ Deviation from the default period will be subject to a **cap** (to be determined) with **no reassessment** required.

Feedback Received - Amortization

Overall Message	Respondents' views on moving to an impairment-with-amortization model or retaining an impairment-only model **remain mixed**.

Summary of Feedback Received

- Respondents generally did not provide new conceptual rationales for amortization.
- Respondents' rationales included practical and conceptual perspectives:
  - Those who supported an impairment-only model generally stated that the impairment information is beneficial to users and that the indefinite-lived nature of goodwill aligns with economic reality.
  - Those who supported reintroducing amortization generally stated that the cost of providing the information outweighs the informational utility and noted the wasting nature of goodwill.
- Respondents indicated that their views may change depending on other decisions made in the project (e.g., changes to existing impairment model).

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Feedback Received – Amortization

Summary of Feedback Received

Conceptual Reasons Provided in Favor of Amortization

- Goodwill is largely a **wasting asset** being carried on the books when cash flows may have already been realized.
- Amortizing goodwill better reflects an entity's profit or loss after a business combination, **net of the cost of investment**.
- Acquisition-related goodwill is replaced with internally generated goodwill; **goodwill is constantly consumed**, and the combined entities are eventually supported by operations not related to the initial business combination.

Practical Reasons Provided in Favor of Amortization

- The cost to perform the impairment test is significant even after recent simplification efforts (under ASUs 2011-08 and 2017-04).[1]
- Goodwill impairment provides **limited informational utility** because impairments are often lagging and confirmatory and informational utility **is lost** after the first few years post acquisition.
- Goodwill impairments are "**too little, too late**."

[1] Accounting Standards Updates No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, and No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

Feedback Received – Amortization

Summary of Feedback Received

Conceptual Reasons Provided in Favor of Amortization (con’t.)

- Amortization **levels the playing field** among entities that grow through acquisitions and those that grow organically.
- Theoretically, less frequent impairments resulting under an amortization model could represent a **stronger indicator** of underperformance of an acquisition.

Practical Reasons Provided in Favor of Amortization (con’t.)

- An amortization model would lead to fewer impairments in subsequent periods and could:
  - Reduce volatility
  - Alleviate pressure on the impairment test
  - Improve the cost-benefit balance
  - Increase comparability between entities.
- Amortization is **less complex**.

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Feedback Received – Impairment Only

Summary of Feedback Received

Conceptual Reasons Provided in Favor of Retaining Impairment-Only Approach

- Belief that goodwill is **not a wasting asset** and that the going-concern element of a business is valued and projected into perpetuity; therefore, impairment testing (only) is appropriate.
- Maintain **decision-useful information** – amortization is arbitrary, has little informational utility, may impair investors' decision making, and does not produce accurate accounting results.
- Provides information about the success or failure of **acquisitions**.
- Impairments promote more management **accountability.**

Practical Reasons Provided in Favor of Retaining Impairment-Only Approach

- The cost of impairment testing **is justifiable** because impairment charges offer insight into the performance of an entity and provide a signal for investors.
- Benefits currently outweigh the costs and processes and controls are currently working effectively.
- Cost reduction may not be significant as impairment testing will still be required with amortization model.
- **Unintended consequences** of an amortization model may arise, including potential negative effects on earnings and key ratios.
- Amortization may result in additional **non-GAAP** adjustments.

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Feedback Received – Amortization

Summary of Feedback Received

Mixed User Feedback

- While many users supported the impairment-only model, some of the same users also did not oppose moving to an impairment-with-amortization model to address cost-benefit considerations.
- Users that support retaining the current **impairment-only model** indicated that goodwill impairment provides useful information.
  - Impairment charges are important signals and provide confirmatory information; amortization could cause fewer impairments to occur.
  - Impairment results in increased disclosures and the impairment-only model better holds management accountable for past acquisitions.
- Users that support (or do not oppose) moving to an **impairment-with-amortization model** stated:
  - Goodwill impairments are lagging indicators and do not provide incremental informational value.
  - Goodwill is a wasting asset.
  - Goodwill balances are too high.

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Amortization – Next Steps

Amortization Period Cap	▪ The Board tentatively decided to require a cap and directed the staff to perform research to inform the length of the cap.
Estimating the Useful Life of Goodwill	▪ The Board asked the staff to continue researching potential relevant factors to estimate the useful life of goodwill, including management's estimated payback period of the acquisition.

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Goodwill Impairment Test

Impairment Test Overview

June 2021 Board Meeting	The Board discussed potential changes to the existing goodwill impairment model: ▪ Unit of account to test goodwill for impairment ▪ Frequency of the goodwill impairment test ▪ Timing of triggering-event evaluation

Existing Impairment Test Simplifications

Previous Changes	Simplifications to the impairment test for the subsequent accounting of goodwill included the introduction of a **qualitative screen** or Step 0 and the **elimination of Step 2** for all entities.[1]

Summary of Feedback Received on ITC

Step 0: Qualitative Screen

- Many respondents commented that the qualitative test provides cost relief for preparers, while others noted only minimal cost savings.
- Some respondents noted that Step 0 has not reduced or affected the informational value of the impairment test, while a few indicated a reduction in informational utility.

Eliminating Step 2

- Many respondents commented that eliminating Step 2 was effective at reducing costs.
- Some respondents noted that Step 2 resulted in minimal or no cost savings.
- Views were mixed on whether eliminating Step 2 affected impairment informational utility.

[1] Accounting Standards Updates No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* and No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

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Unit of Account in U.S. GAAP

- Operating Segment - A component of a public entity that engages in business activities, has its operating results regularly reviewed by the chief operating decision maker, and for which discrete financial information is available.
- Reportable Segment - Level at which segment disclosures are made in the financial statements and could be at a more aggregated level than a single operating segment.
- Reporting Unit - Level at which goodwill is tested for impairment and could be at a more disaggregated level than an operating segment.

Example entity:

Reporting Entity	Reportable Segments	Operating Segments	Reporting Units
Entity A, Inc.	Snacks	Sweet	Chocolate
			Fruit
		Salty	Chips
	Beverages	Beverages	Soda
			Sports Drinks

Level at which disclosures are made in the financial statements

Level at which goodwill is currently tested for impairment

Unit of Account

Recent Discussions	The FASB discussed of the merits of either retaining the unit of account for testing goodwill impairment at the reporting unit (RU) level or moving to either the operating or reportable segment level.

Summary of Feedback Received

- Users preferred more disaggregated and granular information about specific acquisitions and therefore, most supported retaining impairment testing at the RU level.
- Stakeholders also supported retaining the **RU level** for impairment testing because:
  - Testing at a higher level could create a shielding effect.
  - Practice is well established in applying the RU concept.
- Some stakeholders (including a few users) noted that the impairment testing should be performed at the **reportable segment level**.
  - Generally supported by stakeholders who believe that impairments provide minimal informational value and therefore favor cost reduction.
  - RUs are only required for goodwill impairment testing, so moving to a reportable segment would reduce costs and align with existing segment disclosure categories.
- Some stakeholders stated that the impairment test should not be performed at the ***entity level*** as is permitted under the private company alternative because the risk of shielding an impairment is high.

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Triggering Event Assessment Date

Recent Discussions

Questions arose during the pandemic about when entities should evaluate triggering events. ASU 2021-03 allows private companies and not-for-profit entities to perform the goodwill impairment triggering event evaluation as of the end of the reporting period, whether interim or annual.[1] The Board is discussing this issue for public business entities.

Summary of Feedback Received

- Almost all users **did not object to** assessing triggering events at the end of the reporting period.
- Respondents to the Proposed Update that led to Update 2021-03 who **supported** permitting public entities to evaluate goodwill impairment triggering events as of the reporting date noted:
  - No significant differences would result given the short time period (every three months for quarterly reporting).
  - Would reduce cost and complexity when a triggering event occurs.
- Respondents to the Proposed Update that led to Update 2021-03 who **did not support** allowing public companies to delay the assessment to the reporting date noted:
  - Different accounting outcomes for identical events could result, arising from the date the triggering event analysis is required to be performed.

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[1] Accounting Standards Update No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

Frequency of Impairment Testing

Recent Discussions

The FASB discussed whether to retain the annual goodwill testing requirement or move to a trigger-based test.

Summary of Feedback Received

- Many stakeholders supported using a **trigger-only impairment test** when paired with the amortization of goodwill. Reasons include:
  - The annual test is burdensome from a cost and time perspective and generally does not result in impairment loss.
  - Entities have sufficient controls in place to identify triggering events.
  - Aligns more closely with impairment testing for other assets.
- Some stakeholders supported retaining the current model including the **annual impairment test** because:
  - The annual test is a useful interval; goodwill may become impaired, and management may not identify an associated triggering event.
- Most users did not object to eliminating the annual test.
  - Removing the requirements of an annual test would not have a large effect because the triggering events evaluation should address material impairments.
- Users who support retaining the annual test see it as a “good backstop” to make sure impairments do not slip through the cracks.

Disclosures

Disclosures

Overall Message	Most respondents did not support the additional disclosures included in the ITC.

Disclosure Proposals in ITC

- **Goodwill and Impairment:** Disclose facts and circumstances associated with an impairment test not resulting in impairment loss.
- **Intangible Assets:** Disclose quantitative and qualitative information about the agreements (contracts) underpinning material intangible assets.
- **Consequential Disclosures** such as amortization period if goodwill amortization is reintroduced.

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Performance of Business Combinations

ITC	The ITC discussed several reasons for not considering disclosures on acquisition-specific performance.

Reasons for Not Considering Performance Disclosures in ITC

- It would require an entity to track against management-designated targets for several years and, thus, would require additional cost and introduce commercial sensitivity.
- Disclosing that type of forward-looking information may overlap with MD&A disclosures.
  - Safe harbor provisions would not be available for forward-looking disclosures within the GAAP financial statements themselves.

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Feedback Received - Disclosures

Summary of Feedback Received on ITC

Support for Disclosing Facts and Circumstances Not Resulting in Impairment Loss

- This disclosure may provide an **early warning** about a troubled acquisition.
  - **Key estimates and judgments** made by management in the impairment test would be highlighted in this disclosure, thus providing more insight into why an RU does not have an impairment.
- The costs of implementation is expected to be low because the information **already is prepared** as part of the impairment test.

Feedback Received - Disclosures

Summary of Feedback Received on ITC

Opposition to Disclosing Facts and Circumstances Not Resulting in Impairment Loss

- **Limited informational utility** because information on the facts and circumstances that may lead to impairment is already provided in MD&A.
- Potential **inappropriate foreshadowing** of future impairment when there is no near-term expectation of impairment.
- Inconsistent with **other areas of GAAP** assessed for impairment, such as fixed assets.
- **Competitively sensitive** information might be disclosed.

Feedback Received - Disclosures

Summary of Feedback Received on ITC

Support for Disclosing Intangibles Contract Information

- The disclosure would provide **additional insights** into the rights, obligations, opportunities, and risks associated with the asset.
  - That information would be especially useful if certain intangible assets are subsumed into goodwill.

Opposition to Disclosing Intangibles Contract Information

- That disclosure may be irrelevant to understanding the fair value measurement or benefit of the intangible asset.
- Current disclosures already provide users with sufficient, clear, and transparent information about the nature of intangible assets.

Feedback Received - Disclosures

Summary of Feedback Received on ITC

Consequential Disclosures if Goodwill Amortization Is Reintroduced

- A few respondents recommended requiring disclosure of the **amortization period**, **amount** of amortization expense per period, and line item where that expense is recorded.
- A few respondents said that disclosures about the **facts and circumstances** that led to the selection of the amortization period by management would provide investors with decision-useful information.
- A few respondents noted that additional disclosures pertaining to the **method of amortization** selected by management would be helpful.
- A few respondents stated that any **subsequent changes** to goodwill should be disclosed and should include a discussion of how and why the benefit and/or estimated life was changed.

Identifiable Intangible Assets

Recognition of Intangible Assets Separately from Goodwill

Stakeholder Feedback	Most stakeholders supported retaining current accounting for intangible assets acquired in a business combination.
Board's Tentative Decisions	At the April 2021 Board meeting, the Board directed the staff to perform additional research and outreach on **users' perspectives** on what types of intangibles provide decision-useful information.

Overview of Identifiable Intangible Assets

- The ITC asked respondents to comment on four potential approaches for the recognition of identifiable intangible assets:
  - **Approach 1**: Extend the private company alternative to subsume certain customer-related intangible assets (CRIs) and all noncompete agreements (NCAs) into goodwill.
  - **Approach 2**: Apply a principles-based criterion for intangible assets.
  - **Approach 3**: Subsume all intangible assets into goodwill.
  - **Approach 4**: Do not amend the existing guidance.

Feedback Received - Intangibles

Overall Message	Many stakeholders supported retaining current accounting for intangible assets acquired in a business combination.

Summary of Feedback Received on ITC

- Most respondents to the ITC said current accounting provides decision-useful information and the benefits justify the costs.
- Many respondents agreed with the principles-based approach and stated current recognition criteria for identifiable intangible assets are appropriate.
- Some respondents supported the PCC alternative for cost-benefit reasons.
- Few respondents supported subsuming all intangible assets.

Convergence with IFRS Standards

Convergence with IFRS Standards

Board's Question in ITC	The ITC asked respondents to consider comparability and its importance between U.S. PBEs, between GAAP and IFRS Standards, and between all U.S. entities, both public and private.
Feedback Received	Many respondents commented that maintaining convergence was desirable, while others were less concerned about possible divergence.

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Feedback Received – Convergence

Summary of Feedback Received on ITC

- Many respondents said that it would be counterproductive to diverge on this topic in a globalized capital market and that **noncomparability may hinder** users' assessments of entities.
- Other respondents stated that divergence on this topic may **not be problematic**.
  - Some noted that users already make adjustments for existing comparability issues; therefore, any divergence may not result in a significant loss of useful information.
- Many respondents said that comparability with IFRS is relatively less important than comparability between U.S. public business entities and between all U.S. entities, both public and private.

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Next Steps

Next Steps

Staff performing research and analysis on:

- Consequential Disclosures
- Financial Statement Presentation
- Transition

Resources Available

[Project Webpage](#)
[Tentative Board Decisions](#)

[ITC issued 07/09/19](#)

[Comment letters received](#)
[Comment letter summary](#)

[Listen to Roundtable 11/15/19](#)
[Roundtable Minutes](#)