

FASB Simplifies Guidance for Testing Goodwill for Impairment

The FASB has approved changes that will simplify the rules for testing goodwill for impairment. Goodwill impairment occurs when the implied fair value of goodwill in a company's reporting unit declines to an amount that is less than its carrying amount.

Why Has the FASB Made These Changes?

In October and November of 2010, the FASB held roundtables to discuss the concerns of private company constituents. During those roundtables and in other sessions, preparers of private company financial statements expressed concerns to the FASB about the recurring cost and complexity of performing the first step of the two-step goodwill impairment test required under Topic 350, Intangibles—Goodwill and Other.

Current guidance requires an entity to test goodwill for impairment, at least annually, using a two-step process. In step one of the test, an entity is required to calculate the fair value of a reporting unit and compare the fair value with the carrying amount of the reporting unit, including goodwill. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any.

A number of preparers from private companies recommended

that the FASB consider allowing an entity to use a qualitative approach for testing goodwill for impairment to help reduce the cost and complexity associated with performing the current quantitative approach.

What Will These Changes Do?

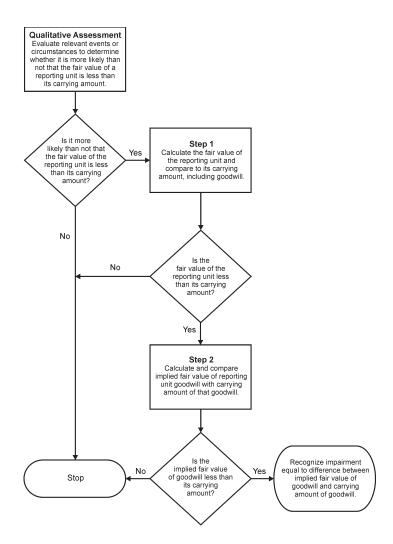
The amendments approved by the Board will reduce complexity and costs by allowing an entity (public or nonpublic) to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. Specifically, an entity will have the option of first assessing qualitative factors (events and circumstances) to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount.

If, after considering all relevant events and circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test will be unnecessary. If the entity concludes that the opposite is true, then it will be required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount

of the reporting unit as explained in current guidance. If the carrying amount of a reporting unit exceeds its fair value, then the entity will be required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the new guidance, an entity may choose to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step test.

The guidance also will expand upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Similarly, it will improve the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount will consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test.

The following chart illustrates the optional qualitative assessment and the two-step goodwill impairment test. Note that an entity having a reporting unit with a zero or negative carrying amount would not perform Step 1 of the test.



The amendments will not change how an entity measures a goodwill impairment loss. Therefore, it is not expected to affect the information reported to users of financial statements.

Next Steps

The FASB expects that the final Accounting Standards Update will be published in September 2011.

When Will the Amendments Be Effective?

The amendments will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption will be permitted.

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