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FASB In Focus

FASB Proposes Simplified Guidance for Testing Indefinite-Lived Intangible Assets for Impairment

The Financial Accounting Standards Board (FASB) is proposing changes that will simplify the guidance for testing indefinite-lived intangible assets other than goodwill for impairment.

Some examples of intangible assets subject to the proposal include indefinite-lived trademarks, licenses, and distribution rights. The standard would apply to all public, private, and not-for-profit organizations.

Why Has the FASB Made These Changes?

During the outreach performed before issuance of Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* the FASB received input from many stakeholders indicating concerns about the recurring cost and complexity of performing impairment tests for indefinite-lived intangible assets other than goodwill. In addition, stakeholders stated that as a result of the recent amendments to the goodwill impairment guidance and the existing guidance for testing long-lived assets for impairment, only indefinite-lived intangible assets would not be eligible to use a qualitative assessment.

Under the current guidance (*FASB Accounting Standards Codification*® Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other than Goodwill), an organization is required to test indefinite-lived intangible assets for impairment, at least annually, by comparing the fair value of the asset with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds the fair value, then an impairment loss is recognized in the amount of that excess.

A number of stakeholders recommended that the FASB consider allowing an organization to use a qualitative approach for testing indefinite-lived intangible assets for impairment, similar to the recently issued impairment testing guidance for goodwill.

The FASB's decision to issue this proposed accounting standard update was based on concerns expressed by stakeholders, particularly that the costs and complexities of performing impairment tests for indefinite-lived intangible assets other than goodwill were far too burdensome. These amendments address their concerns and will simplify assessments and improve the consistency of testing all at a lower cost.

What Will These Proposed Amendments Do?

The proposed amendments would allow an organization to make a qualitative evaluation about the likelihood of impairment of an indefinite-lived intangible asset to determine whether it should apply the quantitative test and calculate the fair value of the indefinite-lived intangible asset.

Specifically, an organization would have the option to first assess qualitative factors (events and circumstances) that could have affected the significant inputs used in determining the fair value of the indefinite-lived intangible asset to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired.

If, after considering all relevant events and circumstances, an organization concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the organization would not be required to take any further action. However, if an organization concludes otherwise, then it would be required to determine the fair value of the indefinite-lived intangible asset and compare the fair value with the carrying amount to determine the amount of impairment loss, if any.

Under the proposed guidance, an organization may choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value.

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

When Would the Amendments Be Effective?

The proposed amendments would be effective for annual and interim impairment tests performed for fiscal years beginning after June 15, 2012. Early adoption would be permitted.

What Are the Next Steps in the Process?

The exposure draft is open for comment until April 24, 2012, and can be accessed at www.fasb.org.

Between now and the end of the comment period, the Board will conduct additional outreach with preparers, users, and auditors of financial statements to solicit their input on the proposal.

The FASB expects that the final Accounting Standards Update will be published in June 2012.

For more information about the project, please visit the FASB's website at www.fasb.org.

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