

JULY 27, 2012



In Focus

FASB Simplifies Guidance for Testing Indefinite-Lived Intangible Assets for Impairment

Overview

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, that simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill.

Some examples of intangible assets subject to the guidance 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 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, indefinite-lived intangible assets would be the only category of long-lived assets subject to an annual quantitative impairment testing requirement.

Under former guidance (*FASB Accounting Standards Codification*[®], Subtopic 350-30, *Intangibles—Goodwill and Other—General Intangibles Other than Goodwill*), an organization was required to test an indefinite-lived intangible asset for impairment on at least an annual basis by comparing the fair value of the asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeded its fair value, an impairment loss was recognized in an amount equal to the difference.

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 Accounting Standards Update was based on concerns expressed by stakeholders, particularly regarding the recurring costs of performing impairment tests for indefinite-lived intangible assets other than goodwill, especially when the facts and circumstances indicate a low likelihood of impairment. These amendments address their concerns, simplify impairment assessments, and improve the consistency of testing—all at a lower cost.

What Will These Changes Do?

The amendments 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 has 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

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

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.

The FASB expects that the revised guidance will reduce the cost of accounting for indefinite-lived intangible assets, especially in cases where the likelihood of impairment is low.

If, after considering all relevant events and circumstances, an organization concludes that it is more likely than not that the indefinite-lived intangible asset is

impaired, then the organization is 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.

However, if an organization concludes otherwise, then it is not required to take any further action.

Under the amended 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 do 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 Are the Amendments Effective?

The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

Further information, including a podcast and a press release, are available on the FASB website at www.fasb.org.

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116
T: 203.847.0700 | F: 203.849.9714

