

**Subsequent Measurement of Goodwill****February 12, 2014****Background and Purpose**

1. The objective of the meeting is to discuss whether the Board would like to change U.S. GAAP on the subsequent measurement of goodwill.
2. On November 25, 2013, the Board added this project to the technical agenda and asked the staff to analyze potential alternatives for the subsequent measurement of goodwill for public business entities (PBEs) and not-for-profit entities (NFPs). The project was added to the Board's agenda at the same meeting the Board endorsed the Private Company Council (PCC) recommendation for private companies for the subsequent measurement of goodwill.

**Alternatives**

3. The Board requested that the staff analyze each of the following four potential views on the subsequent measurement of goodwill:
  - A. **View A:** PCC model
  - B. **View B:** Amortize goodwill over its expected useful life, not to exceed a specified number of years with impairment tests
  - C. **View C:** Direct write-off
  - D. **View D:** Simplified impairment test without amortization

***View A: PCC Model***

4. Under the PCC's alternative for private companies, a private company can elect to amortize goodwill over 10 years. A private company also can elect to amortize goodwill over less than 10 years if it demonstrates another useful life is more appropriate. In

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addition, the PCC decided that a private company should make an accounting policy election to perform its impairment testing at the entity level or the reporting unit level. A private company continues to have the option to first assess qualitative factors to determine whether a quantitative impairment test is necessary. If that qualitative test indicates that it is more likely than not that goodwill is impaired, the entity is required to perform the quantitative test to compare its fair value with its carrying value (or the fair value of the reporting unit with the carrying value of the reporting unit).

5. The PCC further simplified the goodwill impairment test by eliminating step two of the quantitative test, which requires the application of a hypothetical purchase price allocation to calculate the goodwill impairment amount. Under the PCC alternative, the goodwill impairment amount, if any, is the excess of the entity's (or the reporting unit's) carrying amount over its fair value. Goodwill should not be reduced below zero.

***View B: Amortize goodwill over its expected useful life, not to exceed a specified number of years with impairment tests***

6. If the Board decides to pursue View B, there are a several specific issues for the Board to address, each of those issues are listed below:
  - a. Useful life
  - b. Pattern of recognition
  - c. Attributes of impairment test (see View D)
  - d. Allocation of impairment to individual amortizable units of goodwill
  - e. Allocation of goodwill upon disposal of a portion of the business
  - f. Reorganization of reporting units

***View C: Direct write-off***

7. Under View C, a reporting entity would write off goodwill at transition and write off any new goodwill either as an immediate charge to net income or other comprehensive income. As a result, there would be no other subsequent accounting considerations for goodwill.

***View D: Simplified impairment test without amortization***

8. Under View D, the impairment test under current U.S. GAAP could be simplified in a number of ways, and goodwill would not be amortized.
9. If, however, the Board decides to move forward with View B rather than View D, the staff believes the Board should consider the View D impairment test simplifications to accompany View B.
10. Potential simplifications for the impairment test identified by the staff include:
  - a. Testing for impairment at the entity level or operating segment level rather than the reporting unit level,
  - b. Use of a one-step quantitative test rather than a two-step quantitative test, and/or
  - c. Testing for impairment only upon the occurrence of a triggering event rather than annually.

**Staff Recommendation – Public Business Entities**

11. The staff recommends for PBEs that the Board simplify the goodwill impairment test (View D). The goodwill impairment test recommended by the staff would include:
  - (a) A requirement to test goodwill for impairment at the reporting unit level (consistent with current U.S. GAAP).
  - (b) A requirement to test goodwill for impairment annually on the same date or more frequently if there are trigger events (consistent with current U.S. GAAP).
  - (c) An optional qualitative screen to test goodwill for impairment (consistent with current U.S. GAAP).
  - (d) If an entity elects not to perform the qualitative screen or the entity performs the qualitative screens and concludes it is more likely than not that goodwill is impaired, an entity is required to perform a quantitative test whereby fair value of the reporting unit is compared to the carrying value of the reporting unit. Any excess of the carrying value over the fair value is recognized as goodwill

impairment in the income statement (not to exceed the amount of goodwill at the impairment test date).

- (e) When an entity is performing the quantitative test, if the book value of the reporting unit is negative, then the entity must consider the factors in current U.S. GAAP to evaluate whether step two should be performed (that is, retain step two only for certain entities with a negative carrying value).

#### Question for the Board

(1) If the Board wants to change U.S. GAAP for the subsequent measurement of goodwill, does the Board select View A, View B, View C, or View D for PBEs?

#### Questions for the Board

(2) If the Board selects View B:

*Questions about the amortization approach:*

A. Should a reporting entity select a useful life based on its own facts and circumstances up to a maximum useful life or should a useful life be prescribed? What useful life (for a prescribed period or a maximum useful life) does the Board wish to select?

B. Should the pattern of recognition be straight line or should a reporting entity use a systematic and rational method?

*Questions about the impairment test accompanying an amortization approach:*

C. Should the impairment test be current U.S. GAAP or a simplified impairment test (refer to the questions below under View D)?

D. Should impairment be allocated to individual amortizable units on a pro-rata basis or using a reasonable and rational approach?

*Other measurement considerations for an amortization model:*

E. Should goodwill be allocated upon a disposal based on the relative fair value of the business disposed of compared to the relative fair value of the reporting unit (or entity or operating segment, if the level is changed) or using a reasonable and rational approach? If a relative fair value approach is selected,

how should the reduction in goodwill be allocated to the individual amortizable units of goodwill?

F. Should today's guidance be retained for the allocation of goodwill upon a reorganization of a reporting unit (or operating segment) which requires a relative fair value allocation of goodwill or should an entity be permitted to use a reasonable and rational approach to reallocate goodwill? Should entities use a reasonable and rational approach to determine the remaining useful life?

#### Questions for the Board

(3) If the Board selects View D (or decides to simplify impairment in connection with the selection of View B):

A. Should goodwill be tested for impairment at the reporting unit level, the operating segment level or the entity level?

B. Should the impairment test be a one-step test or a two-step test (aside from the qualitative screen)? If the Board selects a one-step test, does the Board wish to require entities with a negative carrying value that determine goodwill is more likely than not impaired to (a) calculate impairment using the only assets and operating liabilities, (b) go to step two or (c) do nothing?

C. Does the Board wish to require an impairment test annually (or more frequently if a triggering event occurs) or only upon the occurrence of a triggering event? If the Board selects a trigger-based test, should the qualitative screen be retained?

#### Question for the Board

(4) If the Board selects View C:

A. If goodwill is written off at the time of the acquisition, should that amount be recognized in the income statement or other comprehensive income?

### Alternative or Requirement for Public Business Entities

12. The Board should consider whether any change should be required or optional for PBEs. The PCC alternative is optional for private companies.

**Question for the Board**

(5) Should the new model be required or an accounting policy choice for the subsequent accounting for all goodwill for PBEs?

**Applicability to Private Companies**

13. If the Board does not select View A, the Board should consider the applicability of elements of the new model to private companies.

**Question for the Board**

(6) How should elements of any new guidance developed by the Board for PBEs be considered in the PCC alternative?

**Staff Recommendation - NFP entities**

14. If the Board selects View D for PBEs, the staff recommends that the PCC alternative should be extended to NFPs.

**Question for the Board**

(7) Should NFPs have the option to use the PCC alternative or should NFPs be required to use the guidance for PBEs?

**Presentation, Disclosure and Transition**

15. If the Board decides to change the subsequent measurement of goodwill, Appendices A, B, and C include a high level summary of the alternatives and the staff's recommendations for the Board relating to presentation, disclosure, and transition for each of the four alternatives.

**Questions for Board**

(8) Based on the approach selected by the Board, what are the presentation requirements for a new model?

(9) Based on the approach selected by the Board, what are the disclosure requirements for a new model?

(10) Based on the approach selected by the Board, what are the transition requirements for a new model?

(11) Should the transition approach include any specific reliefs?

(12) Should the transition be as of the earliest comparative period or the effective date?

## Potential consequential amendments

### ***Topic 323 – Equity method investments***

16. Topic 323 states that the portion of the difference between the cost of an investment and the amount of the underlying equity in the net assets of an investee that is attributable to goodwill should not be amortized. If the Board moves forward with Views A, B or C for the subsequent measurement of goodwill, the staff recommends that a corresponding change should be made to Topic 323 to require amortization or direct write-off of such goodwill.

#### **Question for the Board**

(13) For the portion of the difference between the cost of an investment and the amount of the underlying equity in the net assets of an investee that is attributable to goodwill, should a reporting entity be required to use the same methodology as any new goodwill model the Board selects?

### ***Topic 360 – Testing groups of assets for impairment***

17. When testing long-lived assets groups for impairment, Topic 360 requires goodwill to be allocated to an asset group if the asset group is the same as, or includes, a reporting unit. If the Board makes a change to the level at which goodwill is tested for impairment, the staff recommends a corresponding change to Topic 360.
18. If the Board selects an entity-level test, the staff recommends that no goodwill should be allocated to an asset group that is being tested for impairment. If the Board selects an operating segment-level test, the staff recommends that goodwill should be allocated to an

asset group if it is, or includes, an operating segment in order to align the requirement with the new level of testing.

**Question for the Board**

(14) How should goodwill be allocated to an asset group when an asset group is tested for impairment?

**Topic 740 – Income taxes**

19. Topic 740 prescribes how temporary differences related to goodwill are recognized.
20. If goodwill is amortized (View A or View B), the staff recommends the Board amend Topic 740 to require temporary differences for goodwill to be treated consistently with other temporary differences.

**Question for the Board**

(15) Should the requirements for deferred taxes related to goodwill be amended or clarified as discussed above?

## Appendix A: Presentation

<p style="text-align: center;"><b>View A:</b> PCC Alternative</p>	<p style="text-align: center;"><b>View B:</b> Amortization up to maximum period</p>	<p style="text-align: center;"><b>View C:</b> Direct Write-Off</p>	<p style="text-align: center;"><b>View D:</b> Simplified Impairment</p>
<p>Goodwill, net of accumulative amortization and impairment, is presented as a separate line item in the statement of financial position.</p> <p>Amortization and impairment of goodwill is presented in income statement line items within continuing operations unless the amortization or impairment is associated with a discontinued operation.</p> <p>The amortization and impairment of goodwill associated with a discontinued operation shall be included (on a net-of-tax basis) within the results of discontinued operations.</p>	<p style="text-align: center;">Same as PCC (<b>Staff recommendation</b>) or Also require separate presentation of goodwill amortization and impairment in the income statement</p>	<p style="text-align: center;">Present write-off separately in the income statement or present as a separate component of other comprehensive income (may also present cumulative goodwill write-off in equity section of balance sheet)</p>	<p style="text-align: center;">No change from today's requirements (<b>Staff recommendation</b>). Today's requirements include presentation of goodwill as a separate line item in the statement of financial position and separate presentation of impairment in the income statement.</p>

## Appendix B: Disclosure

View A: PCC Alternative	View B: Amortization up to maximum period	View C: Direct Write-Off	View D: Simplified Impairment
<p><u>Disclosures about additions to goodwill:</u> Amount assigned to goodwill and weighted-average amortization period in total and by major business combination or reorganization resulting in fresh-start reporting</p> <p><u>Disclosures required for each statement of financial position presented:</u> The gross carrying amount of goodwill, accumulated amortization, accumulated impairment, the amortization expense for the period, and goodwill derecognized as part of a disposal</p> <p><u>Goodwill impairment disclosures:</u> A description of the facts and circumstances leading to the impairment</p> <p>The amount of the impairment and the method of determining the FV of the entity/reporting unit</p> <p>The method of allocating the impairment to the individual amortizable units of goodwill</p> <p>The caption in the income statement in which the impairment is included</p>	<p>PCC disclosures</p> <p>+</p> <p>Include information about changes in goodwill in a tabular rollforward (consistent with today's requirements, which would include, for example, foreign currency translation)</p> <p>+</p> <p>Disclose the basis for determining the useful life of goodwill</p> <p>+</p> <p>The next five years of amortization expense (consistent with the requirements for amortized intangible assets today)</p>	<p>Disclosure of cumulative goodwill write-off (if not required to be separately presented in equity on the balance sheet) and goodwill write-off for current period (if not required to be presented separately in the income statement or other comprehensive income)</p>	<p>No change needed to current disclosure requirements which include information about the changes in goodwill (in in a tabular rollforward) and information about goodwill impairment (similar to the PCC requirements)</p>

## Appendix C: Transition

Transition Method	View A: PCC Alternative	View B: Amortization up to maximum period	View C: Direct Write-Off	View D: Simplified Impairment
<b>Prospective</b>	Amortize existing goodwill over 10 years, or elect to amortize goodwill over a period of less than 10 years, if the entity demonstrates another useful life is more appropriate	Amortize goodwill existing as of transition as a single unit of goodwill over a number of years prescribed by the Board	N/A	Use simplified impairment test for any impairment test after the effective date ( <b>Staff recommendation</b> )
<b>Retrospective or Modified Retrospective</b>	N/A	Write-off goodwill at transition  (Staff considered other approaches, but we do not think they are feasible)	Write-off goodwill to equity either as of the effective date ( <b>Staff recommendation</b> ) or the earliest comparative period	N/A