FINANCIAL ACCOUNTING STANDARDS BOARD

Public Roundtable Meeting

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

November 15, 2019

Session 1: 8:30 a.m.–11:30 a.m.
Session 2: 12:30 p.m.–3:30 p.m.

Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut

AGENDA

SESSION 1	SESSION 2	TOPICS FOR DISCUSSION
8:30 a.m.	**12:30 p.m.**	**Topic A**—Current Practice with Current GAAP - User Views - Recent Amendments - Perceived Cost-Benefit Concerns
9:00 a.m.	**1:00 p.m.**	**Topic B**—Potential Ways to Further Reduce Cost - Goodwill Amortization and Period - Goodwill Impairment Test
10:20 a.m.	**2:20 p.m.**	**Break**
10:30 a.m.	**2:30 p.m.**	**Topic C**—Optionality and Comparability - Between Public Business Entities under GAAP - Between Public Business Entities and Other Entities under GAAP - Between GAAP and IFRS Standards
10:50 a.m.	**2:50 p.m.**	**Topic D**—Potential Ways to Increase Information Utility - Disclosures
11:10 a.m.	**3:10 p.m.**	**Topic E**—Identifiable Intangible Assets - User Views and Valuation - Certain Customer-Related Intangibles and Non-Compete Agreements - Contractual/Legal and Separability Criteria
11:30 a.m.	**3:30 p.m.**	**Closing**

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TOPICS FOR DISCUSSION

The FASB's mission is to establish and improve financial accounting and reporting standards to provide investors and other users of financial reports with decision-useful information.

The objective of this roundtable is to help the Board members and staff further develop their understanding of the issues provided in the comment letters received as part of the *Invitation to Comment* and through previous outreach. This is a non-decision-making meeting.

Overview

The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors and creditors in making decisions about providing resources to an entity. The Board strives to issue standards when (1) the expected improvement in the quality of information provided to users—the benefit—justifies the cost of preparing, auditing, and providing that information or (2) reduced cost can be obtained in a manner that does not diminish the quality of information. Those considerations are assessed for the capital market system as a whole.

Cost concerns were identified and documented in the Post-Implementation Review of FASB Statement No. 141 (Revised 2007), *Business Combinations,* which was issued in 2013. In response to that feedback, the Board issued several Updates to address those concerns. Some of those Updates are applicable for all entities, while others were alternatives for private companies and not-for-profit entities (NFPs). The Board separated this project into two phases. Phase 1 of the project simplified the goodwill impairment test.

This is phase 2 of the project. The Board has not yet decided on whether a change in GAAP is warranted. However, similar to the ITC, the following topics discuss situations that pose a potential change in GAAP. To follow the meeting discussion, this document should be read in conjunction with the ITC.

Topic A: Current Practice with Current GAAP

Topic Background

Current guidance for the subsequent accounting for goodwill requires a public business entity (PBE), as well as private companies and NFPs that have not elected the alternative available to them, to test for impairment at least annually or in the presence of a triggering event. This guidance requires management to perform either a qualitative or quantitative test for which there are mixed views on the cost and informational benefit associated with the current model.

Topics for Discussion

<u>User Views</u>

Some financial statement users have indicated that goodwill and reported impairment information is more decision useful than goodwill amortization. The information is used either qualitatively or quantitatively to assess management and the business performance after an acquisition.

Other users have commented that if the process associated with testing goodwill is burdensome and costly, then perhaps an accounting change is warranted. This is true particularly if the information regarding business performance and management can be gleaned from other parts of the financial statements and other information sources. To add to this point, many users have often stated that impairment charges are lagging and provide confirmatory information at best.

Some other users, however, appear indifferent to the accounting methodologies in question. Some have stated that the effect of impairments (and amortization if adopted) is not decision useful and is consistently disregarded in their analyses as a nonrecurring (or recurring) non-GAAP adjustment. Other users have indicated that they make specific adjustments to create decision-useful information regarding a reporting entity's ability to generate future positive cash flows. For example, instead of discounting the financial statement information that is available, certain users have created a framework consisting of specific adjustments that allow these users to compare entities that choose to grow organically with those who grow through acquisitions. Any change in accounting may have a limited effect for these types of users.

1. What critical decision-useful information does the current model provide to users? What evaluation(s) do you make regarding goodwill and intangible assets, when assessing an entity (a) at the time of acquisition, (b) post-acquisition, or (c) at the time of impairment?

2. Goodwill impairment testing is currently performed at a reporting until level. Would a change to the level at which goodwill is tested (that is, segment level) affect the usefulness of the information you receive? Do users view the level of impairment testing to be a critical consideration?

Recent Amendments

The Board has taken steps to reduce the cost associated with the subsequent accounting for goodwill without significantly diminishing the informational utility for users through the issuance of 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*.

Update 2011-08 offers an optional screen (referred to as Step 0) that allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An entity needs to proceed with the quantitative goodwill impairment test only if, on the basis of its qualitative assessment, it determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments in Update 2011-08 are intended to reduce cost by lessening the need to perform a quantitative goodwill impairment test when it is clear that an impairment loss is unlikely.

Update 2017-04 removes Step 2 of the goodwill impairment test. Step 2 involves estimating the implied fair value of goodwill, which requires that an entity allocate the estimated fair value of a reporting unit to individual assets and liabilities within the reporting unit. The amendments in this Update require that an entity perform only Step 1 of the goodwill impairment test, which compares the fair value of a reporting unit with its carrying value, including goodwill. Fair value of a reporting unit can be determined with multiple methods, such as the market or income approach. An entity will recognize a goodwill impairment loss equal to the amount by which the carrying amount of a reporting unit exceeds its fair value. The amount of impairment is capped at the amount of goodwill.

Despite these Updates, certain preparers have stated that significant costs remain. Certain respondents have stated that the qualitative test is highly subjective and does not provide the cost savings that were intended. In some cases, preparers have noted that justifying the qualitative assessment to their auditors can be more costly than performing the quantitative assessment. Additionally, certain respondents have stated that eliminating Step 2 provides some cost savings, but only when a failure in Step 1 occurs.

The Board has continued to receive feedback from public business entities (PBEs) that the benefits of the accounting for goodwill do not justify the cost to prepare and audit the information.

3. What are the main drivers of cost that remain after the recent amendments are adopted?

Topic B: Potential Ways to Further Reduce Cost

Topic Background

The Board has not yet decided on whether a change in GAAP is warranted. However, similar to the ITC, the following topics discuss situations that pose a potential change in GAAP. Many stakeholders have discussed and acknowledged that there may not be a perfect model to most appropriately report the economics of the acquisition and its subsequent performance. Nevertheless, if it is later determined that further reducing cost is appropriate, some alternatives would be to adjust the current model by either amortizing goodwill and/or further adjusting the current goodwill impairment test.

Topics for Discussion

Goodwill Amortization and Period

Certain stakeholders have stated that although amortizing goodwill is practical, it may eliminate decision-useful information, lead to complexity and/or inconsistency in application, or not properly capture the time period in which synergies related to the acquisition have been realized, depending on the amortization period allowed and how that is determined.

4. Does amortization reduce the decision usefulness of the information in comparison with the current impairment-only model?
5. If goodwill is amortized, how does this change the way entities are analyzed?
6. What operational challenges would be present if management was required to determine the amortization period? What operational challenges would be present if goodwill is amortized, and amortized over a default period?
7. Is an impairment test necessary if an amortization model is adopted? If so, should the test be required annually or based on triggering events or both?

Goodwill Impairment Test

Entities currently are required to quantitatively test goodwill for impairment on an annual basis. While a qualitative screen is optional, some stakeholders have stated that modifications to the quantitative test should be considered, for example, the frequency of the required test should be modified.

8. What are the challenges with performing an annual impairment test under the current model?
9. What useable information may be lost if the annual requirement is removed and a trigger-based approach is adopted? Would your answer depend on whether goodwill is amortized?
10. What other ideas do you have for potentially reducing cost without diminishing significant informational utility?

Topic C: Optionality and Comparability

Topic Background

Currently, the method in which an entity subsequently accounts for goodwill under GAAP is different between PBEs and private companies because private companies have the option to amortize. Some stakeholders have stated that a consequence of this difference is the inability to compare financial results between these different types of entities, while other stakeholders have emphasized that comparability issues between entity types is less concerning than the comparability that should exist among PBEs.

There are different perspectives on the topic of convergence between GAAP and IFRS Standards. Some stakeholders have stated that sizable differences currently exist and that the effect of having different methods for subsequently accounting for goodwill does not significantly diminish comparability of financial reporting overall. Other users have stated that this inconsistency poses challenges for users because investors frequently compare entities that report under GAAP with those that report under IFRS Standards. Additionally, some preparers report under both GAAP and IFRS Standards and incur additional cost when the standards are not aligned.

Topics for Discussion

Stakeholders were asked to comment on noncomparability that currently exists and noncomparability that could result from any potential future changes discussed in the ITC.

Optionality can provide significant cost savings for a preparer who elects a possible alternative. However, a model that is optional may reduce the usefulness of the financial information because users may lose comparability among entities.

11. How does optionality for PBEs affect the information utility and the way you perform your analysis?
12. Does an inconsistency in the subsequent accounting for goodwill between public and private entities significantly reduce the informational value of financial reporting?
13. Does a difference between GAAP and IFRS Standards related to the subsequent accounting for goodwill reduce the informational value of financial reporting?
14. Are the costs incurred significantly different under GAAP and IFRS Standards? If so, why and what costs are driving the difference?

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Topic D: Potential Ways to Increase Informational Utility

Topic Background

The Board is interested in what modifications, if any, could be made to the current guidance to improve the informational utility as it relates to goodwill and intangible assets.

Topics for Discussion

There was broad support from users to increase the level of informational utility in the disclosures related to goodwill and intangible assets. However, certain preparers have stated that a competitive advantage may be lost if additional information is provided for acquisitions and/or the inputs into the valuation models. Additionally, the costs associated with preparing the additional disclosures and potential accuracy of forward-looking information were noted as concerns by preparers.

15. What disclosures, if any, are missing that would be helpful to the analysis of an acquisition (a) at the time of acquisition, (b) post-acquisition, and (c) at the time of impairment?
16. How operable are these disclosures and what are the incremental costs?

Topic E: Identifiable Intangible Assets Testing

Topic Background

Currently, intangible assets are recognized as part of a business combination if they are identifiable in accordance with Subtopic 805-10. An asset is identifiable if meets either of the following criteria:

a. It is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.
b. It arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Some users have commented that measures of certain identifiable intangible assets (such as customer related intangible assets) are not verifiable, comparable, or distinguishable from goodwill and, therefore, do not necessarily provide information useful to investors' decision making and that simply knowing the existence of intangible assets is sufficient for their analyses.

Topics for Discussion

Some stakeholders have stated that intangible assets, including customer-related intangibles, should be recognized separately from goodwill because there is benefit from understanding the existence of those assets on the balance sheet, despite uncertainty about measurement reliability and verifiability.

17. Do intangible assets and their ascribed values affect your decision-making process and analyses? If so, how? How much weight do you place on valuation?
18. Does subsuming certain customer-related intangibles into goodwill reduce the usefulness of financial reporting?
19. For which intangible assets are there standard practice and what areas pose challenges in valuation? Are noncompete agreements viewed as less reliable than customer-related intangibles?
20. Can you comment on whether either the separability criterion or the contractual/legal criterion (as described above) for identifiable intangible assets is important in how you evaluate and analyze this information?

Closing

21. What additional comments or questions would you like discuss with the group?