

**Board Meeting Handout**  
**Goodwill—Triggering Event Assessment**  
**November 18, 2020**

**Meeting Purpose**

1. The November 18, 2020 Board meeting is a decision-making meeting. The purpose of this meeting is for the Board to decide whether to add this project to its technical agenda. If the Board decides to add this project to its technical agenda, the Board also will begin initial deliberations for this project.

**Questions for the Board**

1. Does the Board want to add a project to its technical agenda to reduce the cost and complexity associated with interim goodwill impairment testing for private companies and not-for-profit entities (NFPs)? If yes, refer to questions 2–12.
2. Does the Board want to provide an alternative that would allow entities within the scope of this issue (as determined by the Board's answers to Questions 3–5) to perform a goodwill triggering event evaluation only on the annual reporting date? [Issue 1]
3. Does the Board want to limit the applicability of the proposed alternative to entities that meet the definition of *private companies* and *not-for-profit entities* as those terms are defined in the *Accounting Standards Codification's* Master Glossary? [Issue 2]
4. Does the Board want to limit the applicability of the proposed alternative to those private companies and NFPs that only prepare GAAP-compliant financial statements on an annual basis (that is, that do not prepare GAAP-compliant financial statements in interim periods)? [Issue 2]
5. Does the Board want to limit the applicability of that proposed alternative to those entities that also elect an accounting alternative in paragraphs 350-20-35-62 through 35-82, which allows private companies and NFPs to amortize goodwill? [Issue 2]
6. Does the Board want to limit the applicability of the proposed alternative to goodwill that is tested for impairment within the scope of Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill? [Issue 3]

---

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

7. Does the Board think that the proposed alternative should be available at any time and not be limited to annual periods affected by the coronavirus (COVID-19) pandemic? [Issue 4]
8. Does the Board want to require disclosures beyond the current requirements in Topic 235, Notes to Financial Statements, and Subtopic 350-20, which require disclosure of an entity's election to adopt the proposed alternative? [Issue 5]
9. Does the Board want to adopt a prospective transition method? [Issue 6]
10. Does the Board believe that the amendments in a proposed Accounting Standards Update should be effective for fiscal years beginning after December 15, 2019? Does the Board want to provide entities with an unconditional one-time election to adopt the proposed alternative prospectively after its effective date without assessing preferability under Topic 250, Accounting Changes and Error Corrections? [Issue 6]
11. Has the Board received sufficient information to make informed decisions on the issues presented? If not, what other information or analyses does the Board need?
12. Subject to what the staff learns through comment letters, does the Board think that the expected benefits of the changes would justify the perceived costs? If so, does the Board give the staff permission to draft a proposed Accounting Standards Update for vote by written ballot?
13. What should the length of the comment period be for the amendments in the proposed Update?

## **Background**

2. Private company stakeholders have raised questions about the cost and complexity of evaluating interim goodwill triggering events and potentially measuring a goodwill impairment at an interim date when certain private companies and NFPs only issue GAAP-compliant financial statements on an annual basis.
3. Under current GAAP, those entities must monitor for and evaluate interim goodwill triggering events as they occur throughout the year. That may involve management preparing interim balance sheets and projecting cash flows that, according to those stakeholders, may not be relevant at the annual reporting date when financial statements are issued. That may be costly and complex for private companies and NFPs that do not generally prepare financial statements during interim periods or that do not keep track of balance sheet accounts on a perpetual basis.
4. Those stakeholders also stated that performing a goodwill triggering event evaluation only on the annual reporting date may provide more relevant information because the facts and

circumstances used to perform the evaluation would be consistent with the annual financial information reported by those entities.

5. Accordingly, those stakeholders suggested that on the basis of the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, the Board should provide private companies and NFPs with an accounting alternative to perform a goodwill triggering event evaluation only on the annual reporting date.

## **Agenda Decision**

6. Because this project is not currently on the Board's agenda, the Board will first need to decide whether to add a project to its technical agenda if it would like to address this issue.

## **Issue 1: Proposed Alternatives**

7. The staff has identified the following two proposed alternatives to address this issue:
  - (a) *Proposed Alternative 1: Perform the goodwill triggering event evaluation only on the annual reporting date*—This proposed alternative would allow entities within the scope of the relief to perform the evaluation of goodwill triggering events required by paragraph 350-20-35-30 (or paragraph 350-20-35-66 for entities that have elected the amortization alternative) only on the annual reporting date.
  - (b) *Proposed Alternative 2: Perform the goodwill triggering event evaluation only at the end of the reporting period*—This proposed alternative would allow entities within the scope of the relief to evaluate goodwill triggering events only at the end of the reporting period any time that GAAP-compliant financial statements are issued. This proposed alternative would eliminate the evaluation of goodwill triggering events between reporting dates and would allow those private companies or NFPs that prepare interim or stub-period financial statements to defer evaluating a triggering event that occurs during a quarter to the balance sheet date of the quarterly filing.

## **Issue 2: Entities and Filings That Are Within the Scope**

8. The Board will need to decide what type(s) of entities are within the scope of the proposed alternative it chooses, including whether the scope of the proposed alternative should be limited to only entities that file GAAP-compliant financial statements on an annual basis or, rather, whether the proposed alternative should include interim and/or stub-period filings. Additionally, the Board will need to decide whether the proposed alternative should be limited to only those entities that have elected the existing private company amortization alternative.

### **Issue 3: Accounts That Are Within the Scope**

9. The Board will need to decide if accounts other than goodwill should be included within the scope of the proposed alternative it chooses.
10. Goodwill can be recognized as a result of several different transactions, such as a business combination, an equity method investment, or a reorganization (fresh-start accounting). The Board will need to determine what types of goodwill should be within the scope of the proposed alternative it chooses.

### **Issue 4: Whether to Limit Availability of the Proposed Alternative to a Certain Time Period**

11. Private company stakeholders noted that the economic impact of COVID-19 has increased the prevalence of the issues underlying the need for an alternative. The Board will need to decide if the proposed alternative should be permanent or limited to the time period of the global pandemic's economic impact.

### **Issue 5: Disclosure**

12. If the Board decides to provide an alternative for the goodwill triggering event evaluation, the Board also will have to decide whether additional disclosures are necessary, such as disclosures about the use of an alternative or disclosures about interim triggering events that do not result in a goodwill impairment as of year-end.

### **Issue 6: Transition and Effective Date**

13. The Board also will have to decide the transition method and effective date of the amendments in the proposed Update. In making that decision, the Board will consider whether to make the amendments in the proposed Update effective for the 2020 annual reporting period and whether to limit their applicability to periods affected by COVID-19.