

**Board Meeting Handout**  
**Identifiable Intangible Assets and Subsequent Accounting for Goodwill**  
**June 23, 2021**

**Meeting and Memo Purpose**

1. The purpose of the June 23, 2021 Board meeting is to present research and analysis related to the impairment test for the subsequent accounting for goodwill, including the unit of account for the impairment test, the frequency of the impairment test, and the timing of the triggering event assessment.
2. This handout is organized as follows:
  - (a) Unit of Account for the Goodwill Impairment Test
  - (b) Frequency of the Goodwill Impairment Test
  - (c) Triggering Event Assessment.

**Questions for the Board**

**Unit of Account for the Goodwill Impairment Test**

1. Which alternative does the Board prefer for the unit of account when subsequently testing goodwill for impairment:
  - Alternative UA1: Retain Current GAAP (Reporting Unit Level)
  - Alternative UA2: Change to the Reportable Segment Level
  - Alternative UA3: Change to the Operating Segment Level?
2. If the Board prefers Alternative UA1, would the Board like to direct the staff to research if additional disclosures should be required?

**Frequency of the Goodwill Impairment Test**

3. Which alternative does the Board prefer for the frequency of goodwill impairment testing:
  - Alternative FQ1: Retain Current GAAP (test annually and upon triggers)
  - Alternative FQ2: Trigger-Only Goodwill Impairment Test
  - Alternative FQ3: Evolving Impairment Test?
4. Does the Board want the staff to explore ways to refine the guidance on triggering events for the subsequent impairment of goodwill?

### Triggering Event Assessment

5. Which alternative does the Board prefer for the goodwill impairment triggering event assessment date:

Alternative TE1: Defer the triggering event evaluation date and the related impairment testing to the end of the reporting period

Alternative TE2: Identify, evaluate, and disclose interim triggering events but defer impairment testing to the end of the annual reporting period

Alternative TE3: Retain Current GAAP (evaluate and test as of trigger date)?

6. Does the Board want to consider additional disclosures?

### Background

3. Over the past several years, the Board has undertaken targeted projects to simplify the goodwill impairment test (for all entities), including introducing the qualitative screen, Step 0,<sup>1</sup> and eliminating Step 2 of the goodwill impairment test.<sup>2</sup> In addition, the Board also has undertaken targeted projects to simplify the goodwill impairment test for private companies and not-for-profit entities.<sup>3</sup>
4. At its July 15, 2020 Board meeting, the Board asked the staff to explore adding amortization to the goodwill accounting model but also to explore additional changes to the goodwill impairment test. At this meeting, the Board will discuss potential changes to the goodwill impairment test in the context of the Board's tentative decision reached for amortized goodwill.
5. For additional background on the project, please see the project webpage related to the 2019 Invitation to Comment (ITC), *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, the Board's previous meeting handouts, and the Board's tentative decisions reached to date.

### Unit of Account for the Goodwill Impairment Test

6. This issue is related to whether the unit of account for the subsequent measurement of goodwill should remain at the reporting unit (RU) level or be at the reportable segment or operating segment level.
7. The Master Glossary of the *FASB Accounting Standards Codification*<sup>®</sup> defines a *reporting unit* as “the level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment (also known as a component).” An *operating segment* is a

<sup>1</sup> Accounting Standards [Update No. 2011-08](#), *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

<sup>2</sup> Accounting Standards [Update No. 2017-04](#), *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, became effective for public business entities that are SEC filers in 2020, in 2021 for public business entities that are not SEC filers and will become effective for all other entities beginning in 2022.

<sup>3</sup> Accounting Standards [Updates No. 2014-02](#), *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, and [No. 2019-06](#), *Intangibles—Goodwill and Other (Topic 350)*, *Business Combinations (Topic 805)*, and *Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*

component of a public entity that engages in business activities, has its operating results regularly reviewed by the chief operating decision maker, and for which discrete financial information is available (paragraph 280-10-50-1). A *reportable segment* is an operating segment (or aggregation of operating segments) that meets certain quantitative thresholds for disclosure (paragraph 280-10-50-10).

8. On the basis of research and stakeholder feedback, the staff developed the following alternatives for the Board's consideration:
  - (a) *Alternative UA1*: Retain Current GAAP
  - (b) *Alternative UA2*: Change to the Reportable Segment Level
  - (c) *Alternative UA3*: Change to the Operating Segment Level.
9. If the Board prefers Alternative UA1, the Board also will discuss whether additional disclosures should be provided.

### **Frequency of the Goodwill Impairment Test**

10. This issue considers whether goodwill should continue to be tested annually and upon triggering events or if goodwill should be tested for impairment only when a triggering event occurs. Some stakeholders expressed concern about the costs of completing goodwill impairment testing. Those stakeholders noted that one item contributing to the cost of goodwill impairment testing is the frequency of testing. Some stakeholders also proposed changes to the triggering events guidance.
11. On the basis of research and stakeholder feedback, the staff developed the following alternatives for the Board's consideration:
  - (a) *Alternative FQ1*: Retain Current GAAP
  - (b) *Alternative FQ2*: Trigger-Only Goodwill Impairment Test
  - (c) *Alternative FQ3*: Evolving Impairment Test.<sup>4</sup>
12. The Board also will discuss whether the guidance on triggering events for the subsequent impairment of goodwill should be refined.

### **Triggering Event Assessment**

13. On March 30, 2021, the Board issued Accounting Standards Update No. 2021-03, *Intangibles—Goodwill and Other (Topic 350)—Accounting Alternative for Evaluating Triggering Events*, providing private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation in accordance with Subtopic 350-20, *Intangibles—Goodwill and*

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<sup>4</sup> The term *evolving* is used to describe a circumstance in which one method is applied for a specific period of time, followed by a different method for the remaining time. For example, an evolving impairment model could involve an annual impairment test for the first few years after a business combination and testing only upon a triggering event thereafter.

Other—Goodwill, as of the end of the reporting period, whether the reporting period is an interim or annual period.

14. As part of the initial deliberations and redeliberations of Update 2021-03, the Board indicated that it wanted to explore allowing public business entities to perform the triggering event assessment as of the end of the reporting period.
15. On the basis of research and stakeholder feedback, the staff developed the following alternatives for the Board's consideration:
  - (a) *Alternative TE1*: Defer the triggering event evaluation date and the related impairment testing to the end of the reporting period.
  - (b) *Alternative TE2*: Identify, evaluate, and disclose interim triggering events but defer impairment testing to the end of the annual reporting period.
  - (c) *Alternative TE3*: Retain Current GAAP.
16. The Board also will discuss whether incremental disclosures are necessary.