Summary of FASB Invitation to Comment on *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*

Issues Paper

Objective

1 The objective of this paper is to inform EFRAG Board about the issues addressed by the FASB in its invitation to comment (ITC) to its project *Identifiable Intangible Assets and Subsequent Accounting for Goodwill.*

Introduction

2 The Post-Implementation Review of FASB Statement No. 141, *Business Combinations*, issued in 2013 described stakeholders' concerns about the cost to perform the goodwill impairment test.

3 To date, the FASB has issued two Updates that aim to reduce cost for public business entities (PBEs) by simplifying the goodwill impairment test.

(a) 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. 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.

(b) 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.

4 Despite the issuance of Updates 2011-08 and 2017-04, the FASB continues to receive feedback from stakeholders that the cost of the impairment model is not justified by its perceived benefits.

5 In October 2018, the FASB decided to add to its technical agenda a broad project to revisit the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets, in order to address stakeholder concerns on the costs and benefits of the subsequent accounting for goodwill.

6 On 9 July 2019, the FASB issued an Invitation to Comment with a 90-days comment period ending on 7 October 2019, to obtain formal input from stakeholders focusing on public business entities on:

(a) the subsequent accounting for goodwill;

(b) the accounting for certain identifiable intangible assets; and

(c) the scope of the project on those topics.

The issues addressed by FASB

7 The FASB split its ITC into 4 main sections:

(a) Section 1: Whether to change the subsequent accounting for goodwill;

(b) Section 2: Whether to modify the recognition of intangible assets in a business combination;

(c) Section 3: Whether to add or change disclosures about goodwill and intangible assets; and

(d) Section 4: Comparability and scope.

Section 1: Whether to change the subsequent accounting for goodwill

8 This section addresses whether or not the amortisation of goodwill should be reintroduced among other reasons on a cost-benefit basis. The FASB proposed 2 options:

(a) Approach 1: Amortising goodwill; and

(b) Approach 2: Modifying the goodwill impairment test.

Amortising goodwill

9 If FASB allowed goodwill amortisation, it needed to address the amortisation period. FASB proposed the following amortisation period approaches:

(a) A default period;

(b) A cap (or maximum) on the amortisation period;

(c) A floor (or minimum) on the amortisation period;

(d) Justification of an alternative amortisation period other than a default period;

(e) Amortisation based on the useful life of the primary identifiable asset acquired;

(f) Amortisation based on the weighted-average useful lives of identifiable asset(s) acquired; and

(g) Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

10 The FASB also asked the respondents:

(a) If their views on amortisation versus impairment of goodwill would depend on the amortisation method and/or period?

(b) Would equity investors receive decision-useful information when an entity justifies an amortisation period other than a default period? If so, does the benefit of this information justify the cost?

Modifying the goodwill impairment test

11 The FASB seeks to clarify the following questions about the current impairment model:

(a) how much do respondents support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually?

(b) how much do respondents support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)?

(c) what other changes to the impairment test could the FASB consider?

12 In addition, the FASB seeks the feedback on the alternative paths:

(a) an impairment-only model;

(b) an amortisation model combined with an impairment test;

(c) an amortisation-only model; and

(d) if the impairment test employed in alternative (a) or (b) could be simplified or retained as is.

Section 2: Whether to modify the recognition of intangible assets in a business combination

13 FASB Statement 141 introduced the requirement to recognise certain intangible items separately from goodwill. Separate recognition is required for items meeting either the contractual-legal criterion or the separability criterion. This decision was related, in part, to the FASB decision to cease amortising goodwill.

14 However, the FASB recently received feedback that the benefit of separately identifying certain intangible assets did not justify the cost. To clarify this issue the FASB addressed the following questions to respondents in its ITC:

(a) What, if any, cost savings would be achieved if certain recognised intangible assets (for example, noncompete agreements or certain customer-related intangible assets) were subsumed into goodwill and amortised. The FASB asked respondents to list any additional intangible items the FASB should consider subsuming into goodwill?

(b) What, if any, decision-useful information would be lost if certain recognised intangible assets (for example, noncompete agreements or certain customer-related intangible assets, or other items) were subsumed into goodwill and amortised?

(c) How reliable was the measurement of certain recognised intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

(d) To gauge the market activity, are respondents aware of instances in which any recognised intangible assets are sold outside a business acquisition? If so, how often does this occur?

15 As a consequence, the FASB would consider simplifying the existing guidance, improving disclosures or both.

16 The FASB proposed the following 4 options for addressing the recognition of intangible assets and asked the respondents which option they would support on a cost-benefit basis:

(a) Approach 1: Extend the private company alternative to subsume certain intangible assets into goodwill;

(b) Approach 2: Apply a principles-based criterion for intangible assets;

(c) Approach 3: Subsume all intangible assets into goodwill; and

(d) Approach 4: Not to amend the existing guidance.

Section 3: Whether to add or change disclosures about goodwill and intangible assets

Approach 1: Additional disclosures about goodwill

17 At present, a US entity is required to provide a qualitative description of the factors that make up the goodwill recognised. Some users stated that this disclosure could be enhanced, particularly by including more quantitative information, for example, the key performance assumptions or key performance targets supporting the

acquisition and performance against those targets for several years following the acquisition. Some users mentioned that those details would provide more explicit justification of the consideration paid, which would allow them to better understand the reasons for the purchase. In addition, that data would be useful in forecasting and assessing future results.

18 The FASB seeks stakeholders' feedback on:

(a) The incremental costs and benefits of disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss; and

(b) Any other operable ideas about new or enhanced disclosures.

Approach 2: Additional disclosures about intangible assets

19 Some users indicated that they ignore measures of certain recognised intangible assets, particularly when the measure is perceived to be too subjective. Instead of separate recognition of those intangible items, users expressed interest in greater quantitative and qualitative information about the underlying agreements.

20 The FASB seeks stakeholders' feedback on:

(a) The assessment of the incremental costs and benefits of disclosing quantitative and qualitative information about the agreements underpinning material intangible items in:

(i) the period of the acquisition; and

(ii) any changes to those agreements for several years post acquisition.

(b) Any other changes to the current disclosure requirements for goodwill or intangible items.

Section 4: Comparability and scope.

21 This issue relates to the different guidance under US GAAP for private companies and not-for-profit entities, PBEs today are the only entity type in US without accounting alternatives on this topic. This poses related issues around comparability.