FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: April 22, 2011
Comments Due: June 6, 2011

Intangibles—Goodwill and Other (Topic 350)

Testing Goodwill for Impairment

This Exposure Draft of a proposed Accounting Standards Update of Topic 350 is issued by the Board for public comment. Comments can be provided through an electronic constituent feedback form located on the FASB website. Comments provided by letter should be addressed to:

Technical Director
File Reference No. 2011-180

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites individuals and organizations to send comments, either in the form of a letter or through the FASB's new electronic constituent feedback form on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received by June 6, 2011. Interested parties wishing to send comments through the electronic constituent feedback form can access that document through the FASB's website at www.fasb.org (see Projects tab/Technical Plan and Project Updates page). Interested parties providing their comments by letter should submit their letters by email to director@fasb.org, File Reference No. 2011-180. Those without email should send their comments to "Technical Director, File Reference No. 2011-180, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Proposed Accounting Standards Update

Intangibles—Goodwill and Other (Topic 350)

Testing Goodwill for Impairment

April 22, 2011

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Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board received input from preparers of nonpublic entity financial statements indicating concerns about the cost and complexity of performing the first step of the two-step goodwill impairment test required under Topic 350, Intangibles—Goodwill and Other. To address these concerns, some financial statement preparers recommended, among other suggestions, that the Board allow an entity to use a qualitative approach for testing goodwill for impairment.

The objective of this proposed Update is to simplify how an entity is required to test goodwill for impairment. The amendments in the proposed Update would permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test currently required under Topic 350. The more-likely-than-not threshold would be defined as having a likelihood of more than 50 percent.

Current guidance under Topic 350 requires an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the proposed amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements.

What Are the Main Provisions?

Under the amendments in this proposed Update, an entity would have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test would be unnecessary. However, if an entity concludes otherwise, then it would be required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as currently described in paragraph 350-20-35-4. If the carrying amount of a reporting unit exceeds its fair value, then the entity would be required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as currently described in paragraph 350-20-35-9. Under the amendments in this proposed Update, an entity, on the basis of its discretion, would have the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity would be able to resume performing the qualitative assessment in any subsequent period.

The amendments in this proposed Update would include examples of events and circumstances that an entity should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The examples of events and circumstances are not intended to be all-inclusive, and an entity may identify other relevant events or circumstances to consider in determining whether to perform the first step of the two-step impairment test. None of the individual examples of events and circumstances are intended to represent standalone events or circumstances that necessarily would require an entity to perform the first step of the goodwill impairment test.

The examples of events and circumstances in the proposed amendments would include events and circumstances that may indicate that the fair value of a reporting unit is less than its carrying amount. In reaching its conclusions, an entity would need to consider how significant each of the adverse events or circumstances identified could be to the estimated fair value of its reporting unit. Also, an entity should consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity has a recent fair value calculation for a reporting unit, it also may include as a factor in its consideration whether the fair value exceeded the carrying amount by a substantial margin in deciding whether the first step of the impairment test is necessary.

Under the amendments in this proposed Update, the examples of events and circumstances that an entity should consider in performing its qualitative assessment about whether to proceed to the first step of the goodwill impairment test would supersede the examples in paragraph 350-20-35-30 of events and circumstances an entity should consider when testing goodwill for impairment between annual tests. The proposed examples of events and circumstances also would supersede the current examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should evaluate in determining whether to perform the second step of the impairment test, used to measure the amount of the loss, if any.

Under the amendments in this proposed Update, an entity would no longer be permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as currently permitted by paragraph 350-20-35-29.

The proposed amendments would not change the current guidance for testing indefinite-lived intangible assets for impairment.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update are intended to reduce complexity and costs by allowing an entity to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The proposed amendments also would improve current guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Also, the proposed amendments would improve the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount would consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption would be permitted.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

International Accounting Standard 36, *Impairment of Assets* (IAS 36), requires an entity to test goodwill for impairment using a single-step quantitative test performed at the level of a cash-generating unit or group of cash-generating units. The test must be performed at least annually and between annual tests whenever there is an indication of impairment. IAS 36 requires an entity to compare the carrying amount of a cash-generating unit with its recoverable amount. An entity would record the excess of the carrying amount over the recoverable amount as an impairment loss, and the amount of that impairment loss is not limited to the carrying amount of goodwill recorded in the cash-generating unit.

IFRS for small and medium-sized entities requires goodwill to be amortized over its estimated useful life, or a 10-year period if a reliable estimate of the useful life cannot be made. An entity reporting under IFRS for small and medium-sized entities is required to assess, on the basis of qualitative factors, whether there is any indication that goodwill may be impaired at each reporting date.

The Board recognizes that the amendments in this proposed Update do not improve convergence of Topic 350 and IAS 36 relating to how an entity tests goodwill for impairment. The Board believes that such an effort is beyond the scope of this proposed Update and should be done more broadly, by comprehensively addressing these and other differences in impairment guidance between U.S. GAAP and IFRS.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Please describe the entity or individual responding to this request. For example:

a. Please indicate whether you primarily are a preparer, user, or auditor of financial statements or, if other, please specify.
b. If you are a preparer of financial statements, please indicate whether your entity is public or nonpublic and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
c. If you are an auditor, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, nonpublic entities, or both.
d. If you are a user of financial statements, please indicate in what capacity (for example, investor, analyst, or rating agency) and where in the capital structure you are most focused (for example, debt or equity).

Question 2: For preparers, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why.

Question 3: For preparers, do you expect your entity will choose to perform the qualitative assessment proposed in the amendments, or will your entity choose to proceed directly to performing the first step of the two-step impairment test? Please explain.

Question 4: For auditors, do you believe that the proposed amendments will reduce overall costs and complexity compared with existing guidance? If not, please explain why. Does your response differ based on whether the entity is public or nonpublic?

Question 5: For users, do you believe that the qualitative approach for testing goodwill for impairment will delay the recognition of goodwill impairment losses or affect how you evaluate goodwill reported in the financial statements? If yes, please explain.

Question 6: Do you agree that the proposed examples of events and circumstances to be assessed are adequate? If not, what changes do you suggest?

Question 7: Do you agree that the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear? If not, how can the guidance be improved?

Question 8: Do you agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities? If not, please explain why.

Question 9: Do you agree with the proposed effective date provisions? If not, please explain why.

Amendments to the *FASB Accounting Standards Codification®*

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Paragraphs	Action	Description of Changes
350-20-35-3A through 35-3G	Added	The proposed amendments would permit an entity to first assess qualitative factors to determine whether it is necessary to perform the first step of the two-step goodwill impairment test.
350-20-35-8A	Amended	The proposed amendments would change the examples of events and circumstances to be evaluated in determining whether a goodwill impairment exists when the carrying amount of a reporting unit is zero or negative.
350-20-35-29	Superseded	The proposed amendments would no longer permit an entity to carry forward a detailed determination of the fair value of a reporting unit from one year to the next.
350-20-35-30(a) through (g)	Amended	The proposed amendments would change the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether an event or circumstance occurs or changes that would more likely than not reduce the fair value of

Codification Paragraphs	Action	Description of Changes
		a reporting unit below its carrying amount.
350-20-50-3	Added	The proposed amendments would not require certain disclosures of quantitative information about unobservable inputs used in a fair value measurement in accordance with paragraph 820-10-50-2(bbb), as amended by Accounting Standards Update 2011-XX.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–11. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 350-20

3. Amend paragraph 350-20-35-3 and add paragraphs 350-20-35-3A through 35-3G and their related heading, with a link to transition paragraph 350-20-65-1, as follows:

Intangibles—Goodwill and Other—Goodwill

Subsequent Measurement

350-20-35-3 <u>An entity may first assess qualitative factors, as described in paragraphs 350-20-35-3A through 35-3G, to determine whether it is necessary to perform the two-step impairment test discussed in paragraphs 350-20-35-4 through 35-19. If determined to be necessary, the</u>~~The~~ two-step impairment test ~~discussed in paragraphs 350-20-35-4 through 35-19~~ shall be used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any).

> Recognition and Measurement of an Impairment Loss

> > Qualitative Assessment

350-20-35-3A An entity may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill.

350-20-35-3B An entity, on the basis of its discretion, may bypass the qualitative assessment described in the preceding paragraph for any reporting unit in any period and proceed directly to performing the first step of the impairment test. An entity may resume performing the qualitative assessment in any subsequent period.

350-20-35-3C In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, relevant events and circumstances shall be assessed. Examples of such events and circumstances include the following:

a. Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets
b. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline (both absolute and relative to its peers) in market-dependent multiples or metrics, a change in the market for an entity's products or services, or a regulatory or political development
c. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings
d. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings
e. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
f. Events affecting a reporting unit such as a change in the carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion of, a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit
g. If applicable, a sustained decrease (both absolute and relative to its peers) in share price.

350-20-35-3D If, after assessing the totality of events or circumstances such as those described in the preceding paragraph, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the impairment test are unnecessary.

350-20-35-3E If, after assessing the totality of events or circumstances such as those described in paragraph 350-20-35-3C(a) through (g), an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity shall perform the first step of the two-step impairment test.

350-20-35-3F The examples included in paragraph 350-20-35-3C(a) through (g) are not all-inclusive, and an entity shall consider other relevant events and circumstances in determining whether to perform the first step of the goodwill impairment test. An entity shall consider how significant each of the adverse factors identified could be to the fair value of its reporting unit. An entity also shall consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity has a recent fair value calculation for a reporting unit, it also may include as a factor in its consideration whether the fair value exceeded the carrying amount by a substantial margin in reaching its conclusion about whether to perform the first step of the impairment test.

350-20-35-3G An entity shall evaluate, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. None of the individual examples of events and circumstances are intended to represent standalone events or circumstances that necessarily require an entity to perform the first step of the goodwill impairment test. Also, the existence of positive and mitigating events and circumstances is not intended to represent a rebuttable presumption that an entity should not perform the first step of the goodwill impairment test.

4. Amend paragraph 350-20-35-8A, with a link to transition paragraph 350-20-65-1, as follows:

> > Step 1

350-20-35-4 The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill.

350-20-35-5 The guidance in paragraphs 350-20-35-22 through 35-24 shall be considered in determining the fair value of a reporting unit.

350-20-35-6 If the carrying amount of a reporting unit is greater than zero and its fair value exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; thus, the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit is zero or negative, the guidance in paragraph 350-20-35-8A shall be followed.

350-20-35-7 In determining the carrying amount of a reporting unit, deferred income taxes shall be included in the carrying amount of the reporting unit, regardless of whether the fair value of the reporting unit will be determined assuming it would be bought or sold in a taxable or nontaxable transaction.

350-20-35-8 If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any.

350-20-35-8A If the carrying amount of a reporting unit is zero or negative, the second step of the impairment test shall be performed to measure the amount of impairment loss, if any, when it is more likely than not that a goodwill impairment exists. An entity having a reporting unit with a zero or negative carrying amount shall not perform the first step of the impairment test because the entity always would pass that step of the impairment test. In considering whether it is more likely than not that a goodwill impairment exists, an entity shall evaluate whether there are adverse qualitative factors, including the examples of events and circumstances provided in paragraph ~~350-20-35-30(a) through (g)~~350-20-35-3C(a) through (g).

> > Step 2

350-20-35-9 The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill.

350-20-35-10 The guidance in paragraphs 350-20-35-14 through 35-17 shall be used to estimate the implied fair value of goodwill.

350-20-35-11 If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

350-20-35-12 After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis.

350-20-35-13 Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is recognized.

> > Determining the Implied Fair Value of Goodwill

350-20-35-14 The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination or an **acquisition by a not-for-profit entity** was determined. That is, an entity shall assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination or an acquisition by a not-for-profit entity. Throughout this Section, the term *business combination* includes an *acquisition by a not-for-profit entity.*

350-20-35-15 The relevant guidance in Subtopic 805-20 shall be used in determining how to assign the fair value of a reporting unit to the assets and liabilities of that unit. Included in that allocation would be research and development assets that meet the criteria in paragraph 350-20-35-39.

350-20-35-16 The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

350-20-35-17 That assignment process discussed in paragraphs 350-20-35-14 through 35-16 shall be performed only for purposes of testing goodwill for impairment; an entity shall not write up or write down a recognized asset or liability, nor shall it recognize a previously unrecognized intangible asset as a result of that allocation process.

350-20-35-18 If the second step of the goodwill impairment test is not complete before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) and a goodwill impairment loss is probable and can be reasonably estimated, the best estimate of that loss shall be recognized in those financial statements (see Subtopic 450-10).

350-20-35-19 Paragraph 350-20-50-2(c) requires disclosure of the fact that the measurement of the impairment loss is an estimate. Any adjustment to that estimated loss based on the completion of the measurement of the impairment loss shall be recognized in the subsequent reporting period.

5. Supersede paragraph 350-20-35-29, with a link to transition paragraph 350-20-65-1, as follows:

> When to Test Goodwill for Impairment

350-20-35-28 Goodwill of a reporting unit shall be tested for impairment on an annual basis and between annual tests in certain circumstances (see paragraph 350-20-35-30). The annual goodwill impairment test may be performed any time during the fiscal year provided the test is performed at the same time every year. Different reporting units may be tested for impairment at different times.

350-20-35-29 Paragraph superseded by Accounting Standards Update 2011-XX. ~~A detailed determination of the fair value of a reporting unit may be carried forward from one year to the next if all of the following criteria have been met:~~

~~a. The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination. (A recent significant acquisition or a reorganization of an entity's segment reporting structure is an example of an event that might significantly change the composition of a reporting unit.)~~
~~b. The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.~~
~~c. Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.~~

6. Amend paragraph 350-20-35-30, with a link to transition paragraph 350-20-65-1, as follows:

350-20-35-30 Goodwill of a reporting unit shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Additionally, if the carrying amount of a reporting unit is zero or negative, goodwill of that reporting unit shall be tested for impairment on an annual or interim basis if an event occurs or circumstances exist that indicate that it is more likely than not that a goodwill impairment exists. Paragraph 350-20-35-3C(a) through (g) includes examples ~~Examples~~ of such events and circumstances. ~~or circumstances include the following:~~

a. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~A significant adverse change in legal factors or in the business climate~~
b. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~An adverse action or assessment by a regulator~~
c. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~Unanticipated competition~~
d. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~A loss of key personnel~~
e. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of~~
f. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~The testing for recoverability under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 of a significant asset group within a reporting unit~~

g. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~Recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.~~

~~In addition, paragraph 350-20-35-57 requires that goodwill be tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.~~

7. Amend paragraph 350-20-35-48, with a link to transition paragraph 350-20-65-1, as follows:

350-20-35-48 All goodwill recognized by a public or nonpublic subsidiary (subsidiary goodwill) in its separate financial statements that are prepared in accordance with generally accepted accounting principles (GAAP) shall be accounted for in accordance with this Subtopic. Subsidiary goodwill shall be tested for impairment at the subsidiary level using the subsidiary's reporting units. If a goodwill impairment loss is recognized at the subsidiary level, goodwill of the reporting unit or units (at the higher consolidated level) in which the subsidiary's reporting unit with impaired goodwill resides must be tested for impairment if the event that gave rise to the loss at the subsidiary level would more likely than not reduce the fair value of the reporting unit (at the higher consolidated level) below its carrying amount (see paragraph ~~350-20-35-30(g)~~350-20-35-3C(f)). Only if goodwill of that higher-level reporting unit is impaired would a goodwill impairment loss be recognized at the consolidated level.

8. Amend paragraph 350-20-35-57, with a link to transition paragraph 350-20-65-1, as follows:

350-20-35-57 When only a portion of goodwill is allocated to a business to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained shall be tested for impairment in accordance with paragraphs ~~350-20-35-4 through 35-19~~350-20-35-3A through 35-19 using its adjusted carrying amount.

9. Add paragraph 350-20-50-3, with a link to transition paragraph 350-20-65-1, as follows:

Disclosure

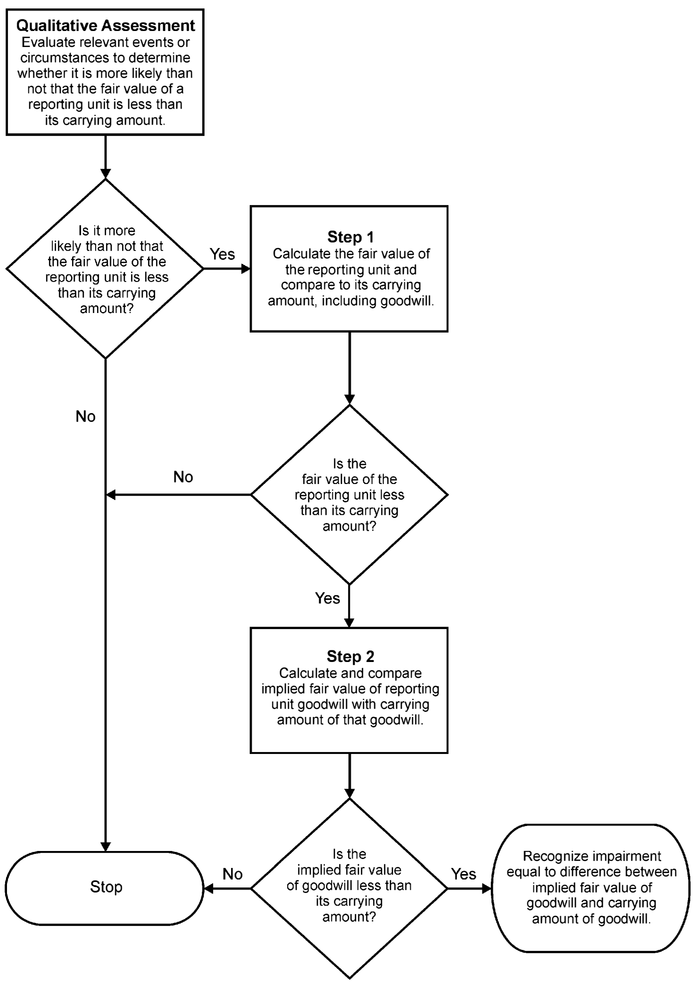
350-20-50-3 The quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) are not required for fair value measurements related to the financial accounting and reporting for goodwill after its recognition in a business combination.

10. Add paragraph 350-20-55-25 and its related heading, with a link to transition paragraph 350-20-65-1, as follows:

Implementation Guidance and Illustrations

<u>> > Example 4: Goodwill Impairment Test</u>

<u>**350-20-55-25** The chart in this Example illustrates the qualitative assessment and the two-step goodwill impairment test described in paragraphs 350-20-35-3A through 35-19.</u>



Note:

1. An entity shall have the option to skip the qualitative assessment and proceed directly to performing Step 1.
2. An entity having a reporting unit with a carrying amount that is zero or negative shall proceed directly to Step 2 if it determines, as a result of performing its qualitative assessment, that it is more likely than not that a goodwill impairment exists.

11. Add paragraph 350-20-65-1 and its related heading, as follows:

> Transition Related to Accounting Standards Update No. 2011-XX, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

350-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2011-XX, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*:

a. The pending content that links to this paragraph shall be applied prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.
b. Earlier application is permitted.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this proposed Update would permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine whether it is necessary to perform the two-step goodwill impairment test currently required under Topic 350.

BC3. The proposed amendments would not affect how the first and second steps of the goodwill impairment test (the comparison of a reporting unit's fair value to its carrying amount and the measurement of an impairment loss, if any) would be performed.

Background Information

BC4. Current guidance under Topic 350 requires an entity to test goodwill for impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any.

BC5. The Board received input from preparers of nonpublic entity financial statements indicating concerns about the recurring cost and complexity of calculating the fair value of a reporting unit under the first step of the two-step goodwill impairment test. Because of those concerns, some financial statement preparers recommended that the Board permit an entity to use a qualitative approach for testing goodwill for impairment. Some nonpublic entity stakeholders suggested that the Board reconsider the current recognition and measurement guidance for goodwill and evaluate whether there is a basis for allowing differential accounting guidance for goodwill between nonpublic entities and public entities given cost-benefit considerations. The Board also participated in discussions with the Private Company Financial Reporting Committee (PCFRC) and reviewed its comment letter in response to the consensus-for-exposure of EITF Issue 10-A, *When to Perform Step 2 of the Goodwill Impairment Test for*

Reporting Units with Zero or Negative Carrying Amounts, which was later codified in Accounting Standards Update No. 2010-28. In that letter, the PCFRC recommended that the Board consider allowing all nonpublic entities to use the qualitative approach required by Update 2010-28, even when an entity has a reporting unit with a carrying amount greater than zero.

BC6. At the December 8, 2010 Board meeting, the Chairman added a project to the Board's agenda to explore alternative approaches to the manner in which nonpublic entities are required to test goodwill for impairment. Although the scope of the project was focused on reporting by nonpublic entities, the Board requested that the staff perform additional research about the implications of also including public entities in the scope of this project.

Scope

BC7. The Board decided that the proposed Update would apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements. While the project originally was intended to reduce complexity and costs for nonpublic entities, the Board recognized that, in many cases, preparers of both nonpublic entity and public entity financial statements share similar concerns about reducing the cost and complexity of applying some accounting standards. As a result, the Board directed the staff to perform outreach and research to evaluate whether there are considerations about users and preparers that warrant different accounting guidance for goodwill between nonpublic entities and public entities.

BC8. During its deliberations, the Board considered the differential factors about goodwill and goodwill impairment losses that distinguish preparers and users of nonpublic entity financial statements from those of public entity financial statements. The Board understands that many users of both nonpublic entity and public entity financial statements generally exclude goodwill impairment losses from their quantitative analyses and often view the impairment loss as a qualitative indicator about the success of an acquisition. The Board observed that there was no significant difference in user needs or how users of nonpublic entity financial statements and users of public entity financial statements evaluate an entity's goodwill balance or goodwill impairment loss.

BC9. The Board observed that many nonpublic entities and small public entities have less internal resources that are qualified to calculate the fair value of a reporting unit, and they incur greater costs relative to their accounting department budgets compared with large public entities.

BC10. The Board considered other alternative approaches that were intended to reduce the cost and complexity of performing the first step of the goodwill impairment test. As the Board deliberated each of the proposed alternatives, it assessed cost-benefit considerations and whether the alternative would result in further divergence from IFRS.

BC11. The Board considered a proposed alternative involving a qualitative approach similar to the approach described in this proposed Update but requiring an entity to periodically calculate fair value to validate its qualitative conclusions. Several stakeholders suggested that a qualitative assessment becomes less effective and less relevant as more time elapses since the date of the last quantitative assessment. While the Board acknowledges these concerns, it decided that the guidance included in the approach described in this proposed Update would adequately reduce the risk that an entity may omit a goodwill impairment loss or may not record the impairment loss in a timely manner. Also, the Board believes that requiring an entity to perform the first step of the two-step impairment test, even when it concludes it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, would result in unnecessary costs and would conflict with the benefits of applying a qualitative approach.

BC12. The Board also considered modifying the existing guidance to allow for increased use of the option to carry forward a prior-year fair value calculation but concluded that this approach would not result in a meaningful cost reduction. In making this decision, the Board acknowledges that, for various reasons, many public and nonpublic entities have not used the carryforward option provided in paragraph 350-20-35-29. Several preparers stated that they have been unable to satisfy the carryforward criteria, and others stated that their public accounting firms often take exception with their intention to carry forward a prior-year fair value calculation. The Board believes that if the proposed amendments either required or made reference to performing a fair value calculation to periodically support an entity's qualitative assertions, then the benefits of the proposal could be reduced because some public accounting firms or others may require entities to calculate fair value under the first step of the test each year, regardless of their conclusions reached in performing the qualitative assessment.

BC13. In addition, the Board considered a proposed amortization model, coupled with a qualitative trigger-based impairment model, that had been required under APB Opinion No. 17, *Intangible Assets*. The Board believes that an amortization approach would reduce the costs required to test goodwill for impairment, but it decided against this alternative for the same reasons cited during the Board's deliberations of FASB Statement No. 142, *Goodwill and Other Intangible Assets*. In that Statement, the Board concluded that the pattern of expense recognition often does not align with the economics of the goodwill recognized because not all goodwill declines in value and because it is difficult to estimate a useful life and an appropriate amortization method for goodwill. While this approach would be consistent with the requirements for entities reporting under IFRS for small and medium-sized entities, it would result in further divergence from other entities reporting under IFRS. In rejecting this proposed alternative, the Board affirmed its tentative decision not to amend goodwill measurement guidance as part of this project.

BC14. The Board also considered an alternative that proposed that an entity would derecognize existing goodwill and record any new goodwill as an immediate charge to earnings or as a contraequity account as of the acquisition date. The Board considered this alternative because many users of financial statements indicated that generally they exclude goodwill and goodwill impairment losses from their quantitative analyses. While the Board recognizes that this approach would provide the most cost relief because an entity would never need to test goodwill for impairment, the Board determined that this approach does not have strong conceptual merit because goodwill meets the definition of an asset, which should not be written off unless it is deemed to be impaired. Also, the Board concluded that an immediate writeoff would be inconsistent with the economics of the transaction that gave rise to the goodwill, and it would result in further divergence from IFRS. While the Board provided for similar treatment in Topic 958, Not-for-Profit Entities, that guidance is limited in scope to not-for-profit entities and their acquirees that are predominantly supported by contributions and return on investments given their unique cost-benefit and operational considerations and because they do not share the characteristics of a business. In rejecting this proposed alternative, the Board affirmed its tentative decision not to amend goodwill recognition guidance as part of this project.

BC15. The Board also considered a proposed alternative that would have required an entity to test goodwill for impairment at a higher level than a reporting unit, such as a reportable segment or the consolidated entity level. The Board decided against that proposed alternative because it would have resulted in a further deviation from IAS 36 because that guidance requires an entity to test goodwill at the level of a cash-generating unit or group of cash-generating units. Additionally, the Board affirmed its conclusions reached during deliberations of Statement 142 that a reporting unit is the appropriate level to test goodwill because it best reflects the way an entity is managed and it commonly is the level at which goodwill is allocated.

BC16. Ultimately, the Board decided that the scope of the project should be limited to how an entity tests goodwill for impairment, and it should not change the recognition and measurement of goodwill. In reaching that decision, the Board determined that by keeping the scope of the project narrowly focused on when to perform the first step of the impairment test (or the second step of the impairment test in the case of an entity having a reporting unit with a zero or negative carrying amount), it could provide more near-term cost relief to financial statement preparers in response to their concerns. Additionally, the Board wanted to avoid creating any additional areas of divergence from the goodwill recognition and measurement guidance under IFRS.

BC17. Because the Board decided that the scope of the project should be limited to how an entity would test goodwill for impairment, the amendments in this proposed Update do not affect how an entity tests indefinite-lived intangible assets for impairment under Topic 350. The Board reached this decision primarily because it had not received similar concerns from preparers of financial statements about the cost and complexity of testing indefinite-lived intangible assets for impairment.

BC18. The proposed amendments would not change current guidance about other events affecting the recognition of goodwill that require an entity to calculate the fair value of a reporting unit, such as when an entity reorganizes its reporting structure in a manner that changes the composition of one or more reporting units and when an entity disposes of a portion of a reporting unit that constitutes a business.

General Considerations

BC19. During the staff outreach for this proposed Update, almost all stakeholders recommended that if the Board decided to allow an entity to test goodwill for impairment using a qualitative approach, then the Board should improve the examples of events and circumstances to consider in making that determination. In particular, stakeholders indicated that the current examples of events and circumstances provided in paragraph 350-20-35-30 are minimal and are ineffective in identifying many entity-specific events or circumstances that may suggest goodwill is potentially impaired. Also, the Board acknowledges that based on staff research, most of the examples of events and circumstances listed in current guidance do not correspond to the actual reasons disclosed by many public entities that have recognized goodwill impairment losses. The Board also noted that the research indicated that most public entities that reported a goodwill impairment loss disclosed that more than one reason contributed to the loss.

BC20. The Board therefore decided to expand the examples of events and circumstances that an entity should evaluate in assessing whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Board indicated that it does not intend for an entity or its public accounting firm to view these examples as events and circumstances that automatically require an entity to proceed to performing the first step of the impairment test. The Board believes that an entity should consider the significance of any events or circumstances that exist when determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Board also decided that an entity should weigh positive and mitigating events and circumstances in determining whether to perform the first step of the impairment test. If an entity has a recent fair value calculation for a reporting unit, it also may include as a factor in its consideration whether the fair value exceeded the carrying amount by a substantial margin in determining whether to perform the first step of the impairment test.

BC21. The Board decided to allow an entity, on the basis of its discretion, the option to bypass the qualitative assessment and proceed directly to performing the first step of the two-step impairment test. An entity would be able to resume performing the qualitative assessment in any subsequent period. In reaching that decision, the Board concluded that an entity should not be required to evaluate qualitative factors if it chooses to skip directly to calculating the fair value of a reporting unit under the first step. The Board recognizes that an entity may reach this conclusion when it believes that assessing qualitative factors is unnecessary because there is a high degree of likelihood that the fair value of a reporting unit is less than its carrying amount. In these circumstances, the Board does not intend for an entity to address the effect of qualitative factors if it decides to perform the first step of the impairment test. The Board decided that an entity may bypass the qualitative assessment in any period for any reporting unit, and it may resume performing the qualitative assessment in any subsequent period. The Board decided not to permit an entity to skip directly to performing the second step of the impairment test because in order to complete that step, an entity first must calculate fair value under the first step of the test.

BC22. While the expanded examples of events and circumstances in the proposed amendments would supersede the current list of examples of events and circumstances an entity should consider between annual goodwill impairment tests, the Board does not intend to change the practice of how an entity would evaluate goodwill impairment on an interim basis. The Board intends for an entity to consider, between annual tests, whether any changes in events or circumstances have occurred that indicate it is more likely than not that the fair value of a reporting unit has fallen below its carrying amount.

BC23. Several stakeholders suggested that the Board could further reduce costs to preparers if it proposed amendments to the second step of the two-step goodwill impairment test, which provides guidance for measuring an impairment loss. This was suggested because the measurement step most often is the more complex and costly of the two-step impairment test because it involves assigning fair values to all of the assets and liabilities in a reporting unit to arrive at an implied fair value of goodwill. While the Board acknowledges the validity of those assertions, it decided not to modify the second step of the impairment test because it did not want to expand the scope of the project to measurement and because preparers indicated that they were primarily concerned about the recurring costs of performing the first step of the test when they believed the risk of goodwill impairment was unlikely. Preparers did not express concerns to the Board about the cost of measuring an impairment loss when a reporting unit fails the first step of the two-step impairment test.

Effect on Accounting Standards Update No. 2010-28

BC24. The amendments in this proposed Update would affect the guidance in Accounting Standards Update No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. The new examples of events and circumstances would supersede the current examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should evaluate in determining whether to perform the second step of the impairment test. An entity having a reporting unit with a zero or negative carrying amount would not perform the first step of the impairment test because the entity would always pass that step.

Effective Date

BC25. The Board decided that the amendments in this proposed Update would be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption would be permitted.

BC26. The Board added this project to its short-term agenda to provide cost relief in response to concerns raised by preparers of nonpublic entity financial statements. The Board decided that requiring all entities to apply the change in fiscal years beginning after December 15, 2011, would be operational given the narrow scope of the proposed amendments to Topic 350. The Board believes that an entity should have the option to early adopt the proposed new guidance in order to reduce costs and complexity when performing its next goodwill impairment test. The Board also directed the staff to proactively communicate the release of this Exposure Draft and a final Accounting Standards Update so that nonpublic entities and smaller public accounting firms will be made aware of the proposed changes.

Benefits and Costs

BC27. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors.

BC28. During its deliberations of Statement 142, the Board concluded that the most effective way to test goodwill for impairment was to require an annual quantitative assessment involving the calculation of a reporting unit's fair value. In reaching that decision, the Board had indicated that it was sensitive to the cost of requiring an entity to quantitatively test goodwill for impairment each year but believed that several factors incorporated into the guidance would limit the costs to be incurred by financial statement preparers. However, as practice evolved following the adoption of Statement 142, many of those factors did not necessarily reduce the costs incurred by many entities.

BC29. For example, current guidance permits an entity to carry forward its fair value calculation from one year to the next if certain criteria are met. In its basis for conclusions of Statement 142, the Board had stressed the importance of this carry forward guidance in deciding to require an annual goodwill impairment test that is based on the calculation of fair value. The Board has since learned that, in practice, many nonpublic and public entities have not used the option to carry forward a reporting unit's fair value calculation. Instead, those entities have been recalculating the fair value of each reporting unit every year, resulting in additional efforts and costs incurred. Additionally, the Board had believed that most of the costs associated with performing the first step of the impairment test would be incurred in the year of adoption of Statement 142 and then would decrease significantly in future years after an entity assigned its goodwill and net assets to each reporting unit and established its fair value model to complete the test. However, the Board has learned that, in practice, the extent of recurring preparation costs and people hours, the continued involvement of valuation firms given the complexity of the fair value calculation and volatility of discount rates, and the level of efforts to audit the various inputs and assumptions used in the fair value calculations have not resulted in a significant decrease in costs for many entities since the adoption of Statement 142. Also, the Board had permitted an entity to determine the fair value of a reporting unit using a multiple of earnings or revenue approach to reduce complexity. In practice, reporting entities consider several valuation approaches when measuring the fair value of a reporting unit, as required under current fair value guidance. In many cases, reporting units have unique characteristics that make it very challenging to identify meaningful comparable entities to use in a market approach. As a result, the more costly income approach is frequently given more, and sometimes exclusive, weight in determining the fair value of a reporting unit.

BC30. The Board believes that the qualitative approach included in the amendments in this proposed Update will adequately address the concerns raised by preparers of nonpublic entity financial statements because it would reduce the cost and complexity of calculating the fair value of a reporting unit. In reaching its decision, the Board determined that the proposed approach was operational and auditable and would likely reduce costs for many entities. The Board acknowledges that in an unfavorable economic environment, many entities may likely determine that they must calculate fair value under the first step of the test because it may be more likely than not that the fair value of a reporting unit is less than its carrying amount. However, the Board believes that the amendments in this proposed Update would provide greater cost relief to preparers in a more stable or favorable economic environment without affecting the information reported to users of financial statements.

BC31. The Board believes that the qualitative assessment described in the proposed Update would allow an entity to exercise more judgment to reduce the recurring costs of calculating the fair value of a reporting unit. The Board also supported this approach because it believes that the approach enhances existing guidance in Topic 350 without creating a fundamental change in U.S. GAAP that would affect the recognition or measurement of goodwill. The Board believes that including guidance to clarify how it intends an entity to assess the examples of events and circumstances would be responsive to concerns raised by some stakeholders that some public accounting firms and others may challenge an entity's determination that it does not need to complete the first step of the two-step impairment test due to the existence of one or more of the examples of events and circumstances.

BC32. Currently, paragraph 350-20-50-2(b) requires an entity that recognizes a goodwill impairment loss to disclose the method of determining the fair value of a reporting unit. As part of its joint project with the IASB on fair value measurements, the FASB is issuing Accounting Standards Update 2011-XX, which amends Topic 820 to require the disclosure of quantitative information about the significant unobservable inputs used in a recurring or nonrecurring fair value measurement that is categorized within Level 3 of the fair value hierarchy. In that project, after considering feedback from users of financial statements, the Board decided to clarify that disclosures about significant unobservable inputs should include quantitative information. The purpose of those disclosures is not to give users of financial statements information to replicate an entity's pricing models but rather to provide sufficient information for users to assess whether an entity's views about individual inputs differ from their own and, if so, to decide how to incorporate an entity's fair value measurement in their decisions.

BC33. As a result of outreach performed for this project, the Board understands that users of both nonpublic entity and public entity financial statements generally exclude goodwill impairment losses from their quantitative analyses and often view the impairment loss as a qualitative indicator about the success of an acquisition. Therefore, because most fair value calculations for goodwill impairment purposes are categorized within Level 3 of the fair value hierarchy, the Board concluded that the assumptions used to estimate the amount of impairment loss similarly would not provide significant benefits to users and that the cost of providing the disclosures would exceed the benefit of providing them.

Amendments to the XBRL Taxonomy

The following element is a proposed addition to the XBRL U.S. GAAP Financial Reporting Taxonomy. This reflects the amendments to the disclosure and presentation requirements of the Accounting Standards Codification and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL exhibit.

Individuals and organizations commenting on the amendments in this proposed Update should consider the usefulness, appropriateness, and completeness of this element for entities required to include an XBRL exhibit with their SEC filings. Respondents also should consider the context of the element in the current XBRL U.S. GAAP Financial Reporting Taxonomy.

Element Name	**Standard Label**	**Definition**	**Codification Reference**
AccountingStandardsUpdate2011-XXMember	Accounting Standards Update 2011-XX [Member]	Accounting Standards Update No. 2011-XX Intangibles—Goodwill and Other (Topic 350) - Testing Goodwill for Impairment.	350-20-65-1