The FASB is seeking input on possible changes to the accounting and disclosure requirements related to goodwill and intangible assets for PBEs.

**What you need to know**
- The FASB issued an Invitation to Comment seeking input on whether it should simplify the subsequent accounting for goodwill and the accounting for certain intangible assets.
- The FASB is also seeking input on whether it should change the disclosure requirements about goodwill and intangible assets and whether it should revisit any other aspects of the guidance on accounting for these items.
- While the FASB is primarily seeking feedback about public business entities, stakeholders of private companies and not-for-profits that are currently allowed to elect alternatives to simplify their accounting for goodwill and certain intangible assets may want to comment because these entities could also be affected by any changes to the guidance.
- Comments are due by 7 October 2019.

**Overview**

The Financial Accounting Standards Board (FASB or Board) issued an Invitation to Comment (ITC) to solicit feedback on whether it should and, if so, how to simplify the subsequent accounting for goodwill and the accounting for intangible assets for public business entities (PBEs).

The FASB issued the ITC as part of its broader project on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets for all entities. The Board recently issued an Accounting Standards Update to allow not-for-profit (NFP) entities to elect to simplify their subsequent accounting for goodwill and their accounting for certain identifiable intangible assets by using accounting alternatives that were previously available only to private companies.
The FASB said it was issuing the ITC because it has received mixed feedback in the past. Preparers have said the accounting for goodwill impairment and the accounting for certain intangible assets is too complex. Preparers say the benefits of providing this information to users of the financial statements does not justify the costs associated with valuing certain intangible assets and performing the goodwill impairment test. Some users have said the information isn't meaningful, but others have said the information about any impairment of goodwill helps confirm their suspicions about acquisitions that are lagging management’s expectations.

The Board has already taken steps to simplify the accounting for goodwill impairment and the accounting for certain intangible assets by eliminating Step 2 of the goodwill impairment test, creating the optional qualitative screen for the goodwill impairment assessment and providing the accounting alternatives for private companies and NFPs. These changes have generally reduced the cost and complexity of accounting for these items, but the Board continues to receive feedback from PBEs that more can be done.

In the ITC, the Board seeks input on whether it should (1) change the requirements for accounting for goodwill, including whether it should change the impairment test or whether it should require goodwill to be amortized; (2) change the requirements for recognizing intangible assets in a business combination; and (3) add new disclosure requirements or change the current requirements for disclosures about goodwill and intangible assets.

**Key considerations**

**Subsequent accounting for goodwill**

Many preparers say the goodwill impairment model is too costly and complex. Some users also say the information isn’t meaningful because it doesn’t have predictive value, but others say goodwill impairments provide information about underperforming acquisitions.

**Amortization of goodwill**

In the ITC, the Board seeks comment on whether it should require or allow PBEs to amortize goodwill (with or without impairment testing) over any of the following possible amortization periods:

- A default period
- A cap (or maximum) on the amortization period
- A floor (or minimum) on the amortization period
- An alternative to a default period that an entity would have to justify is appropriate in the circumstances
- Amortization based on the useful life of the primary identifiable asset acquired
- Amortization based on the weighted average useful lives of identifiable assets acquired
- Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired process or other management judgments)

The ITC also seeks input on the length of any default period the FASB might require and notes that some stakeholders support amortization of goodwill over a default period of 10 years. This would be consistent with the accounting alternative private companies and NFPs can currently elect.
**Simplify the goodwill impairment test**
The Board seeks feedback on whether PBEs should be required to test goodwill for impairment only when events or circumstances indicate that the fair value of the entity (or reporting unit) may be below its carrying amount. This is known as a triggering event.

Under this approach, PBEs that determine that no triggering events have occurred would not have to perform impairment tests. This approach would be consistent with the accounting alternative private companies and NFPs can currently elect.

The ITC also seeks input on whether the goodwill impairment test can be further simplified by providing an option to test goodwill at the entity level. Private companies and NFPS currently have this option.

**Recognition of intangible assets in a business combination**
The ITC notes that stakeholders also have expressed mixed views about the usefulness of information about the value of certain intangible assets acquired in a business combination.

**Extend the accounting alternative to PBEs**
The ITC seeks feedback on whether it should extend the intangible asset accounting alternative to PBEs. Under this approach, PBEs could subsume certain customer-related intangible assets not capable of being sold or licensed separately from the other assets of an acquired business and all noncompete agreements into goodwill. PBEs that made such an election would subsume into goodwill certain types of customer-related intangible assets that they have historically recognized separately and would no longer be required to separately recognize acquired noncompetition agreements.

**How we see it**
The ITC notes that giving PBEs the option to elect this approach as an accounting alternative could result in a lack of comparability of PBEs’ financial statements. It’s also possible that the Board might revisit the accounting for all entities rather than allow them to make this election. Private companies and NFPS that have elected these accounting alternatives should monitor developments because any changes in the guidance could affect all entities.

**Use criteria to subsume intangible assets into goodwill**
Another possible approach addressed in the ITC is to use principles-based criteria to determine which intangible assets could be subsumed into goodwill. One example cited in the ITC would be to subsume all intangible assets into goodwill except those that are capable of generating cash flows independent of the business (e.g., capable of being sold or licensed independently from other assets of the business). Another example would be to use the existing asset definition in Concepts Statement No. 6 (or a potential future definition) before determining whether the intangible assets meet the existing contractual-legal or separability criteria to be recognized separately from goodwill.

**Subsume all identifiable intangible assets into goodwill and amortize goodwill**
One approach the FASB addresses in the ITC is subsuming all identifiable intangible assets into goodwill. The ITC notes that, if it were to take this approach, it would have to require the amortization of goodwill and would therefore have to determine the goodwill amortization period. This is because many intangible assets subsumed into goodwill would be definite-lived. Under this approach, the Board may also have to address how to account for subsequent sales of subsumed intangible assets.
Do not subsume intangible assets into goodwill

The ITC also seeks comment on whether the FASB should retain the current guidance that requires entities to recognize intangible assets acquired in a business combination separately from goodwill as of the acquisition date. Stakeholders suggesting this approach generally believe that the cost savings would not be substantial enough to justify a change in the accounting for intangible assets or that the current requirement provides decision-useful information to users.

Disclosures about goodwill and intangible assets

The Board also seeks input on whether and how information provided in the financial statements about goodwill and intangible assets could be improved. New disclosures that could be required include:

- Facts and circumstances that led to a goodwill impairment test that have not resulted in a goodwill impairment loss
- Quantitative and qualitative information about the agreements underpinning material intangible assets in the period of the acquisition and changes to those agreements post-acquisition

Comparability and scope

The ITC discusses several potential comparability issues, including the lack of comparability between the financial statements of PBEs and those of foreign filers that apply IFRS, and the lack of comparability of financial statements of PBEs and those of all other entities that currently can elect accounting alternatives for goodwill and certain intangible assets.

The ITC clarifies that the FASB's intent is to address whether the costs of accounting for goodwill and intangible assets under today's guidance outweighs the benefits. The FASB said it does not intend to address what goodwill is, or whether it should allow the pooling-of-interests accounting or allow entities to write off goodwill directly.

How we see it

We encourage all entities to carefully consider all of the issues raised in the ITC and provide feedback to inform and assist the FASB with its objective of balancing the costs of providing information about goodwill and intangible assets with the benefits of that information to users.