FASB **EXPOSURE DRAFT**

Proposed Accounting Standards Update

Issued: December 21, 2020
Comments Due: January 20, 2021

Intangibles—Goodwill and Other (Topic 350)

Accounting Alternative for Evaluating Triggering Events

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 350 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2020-1100, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

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

The Board invites comments on all matters in this Exposure Draft until January 20, 2021. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2020-1100
- Sending a letter to "Technical Director, File Reference No. 2020-1100, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

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. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

Intangibles—Goodwill and Other (Topic 350)

Accounting Alternative for Evaluating Triggering Events

December 21, 2020

Comment Deadline: January 20, 2021

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Summary and Questions for Respondents

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

Under the current guidance in Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill, an entity is required to monitor and evaluate goodwill impairment triggering events throughout the fiscal year. When a triggering event occurs, the entity is required to perform an analysis of whether it is more likely than not that the fair value of a reporting unit (or entity, if the entity has elected the accounting alternative for amortizing goodwill[1] and chosen that option) is less than its carrying value. If the entity concludes that it is more likely than not that goodwill is impaired, then the entity must test goodwill for impairment. The triggering event analysis and resulting goodwill impairment test, if any, are required to be performed on the date that a triggering event occurs without the use of hindsight or known changes to facts and circumstances after the triggering event date.

Certain stakeholders expressed concern about the cost and complexity of private companies evaluating triggering events and potentially measuring a goodwill impairment at an interim date when those entities only report goodwill subsequently accounted for under Subtopic 350-20 or any line item that would be affected by a goodwill impairment (in-scope financial information) on an annual basis. Those stakeholders explained that this issue has become more apparent during the coronavirus (COVID-19) pandemic because of the uncertainty in the economic environment and the significant changes in facts and circumstances, quarter over quarter. Additionally, those stakeholders stated that some private companies may perform this analysis as part of their annual financial reporting process, so it may be difficult for them to determine whether there was a triggering event and the date on which the triggering event occurred.

Those stakeholders also asserted that performing a goodwill impairment evaluation at an interim date may not provide useful information for users of certain private company financial statements. If a private company that only reports in-scope financial information on an annual basis determines that it has a potential goodwill impairment triggering event on an interim date but the facts and circumstances that led to the potential triggering event have changed by the end of the annual reporting period, an interim impairment may not provide meaningful information to users of financial statements. For example, if the facts and circumstances that led to the potential interim triggering event no longer exist or are different at year-end, a triggering event evaluation that reflects the updated

[1]Paragraphs 350-20-35-62 through 35-82 provide an accounting alternative for the subsequent measurement of goodwill for private companies and not-for-profit entities. That alternative is referred to in this document as the “accounting alternative for amortizing goodwill.”

facts and circumstances may be more relevant for a financial statement user. In response to the concerns expressed by stakeholders regarding the cost and complexity of performing an interim triggering event evaluation and the relevance of the inputs used in that evaluation for certain entities, the Board decided to issue this proposed Update.

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

The amendments in this proposed Update would apply to private companies and not-for-profit entities that only report goodwill that subsequently is accounted for in accordance with Subtopic 350-20 (or any line item that would be affected by a goodwill impairment) (in-scope financial information) on an annual basis. The proposed amendments would not be limited to those entities that also have elected the accounting alternative for amortizing goodwill.

What Are the Main Provisions?

The amendments in this proposed Update would provide private companies and not-for-profit entities that only report in-scope financial information on an annual basis with an option to perform the identification and evaluation of a triggering event for goodwill impairment as required in Subtopic 350-20 only as of their annual reporting date. An entity that elects this alternative would not be required to monitor for goodwill impairment triggering events in interim periods but would instead evaluate the facts and circumstances as of year-end to determine whether it is more likely than not that goodwill is impaired. An entity that does not elect the accounting alternative for amortizing goodwill and that performs its annual impairment test at a date other than the annual reporting date would perform a triggering event evaluation only between the annual goodwill impairment tests and only as of the annual reporting date.

The amendments in this proposed Update would not require incremental disclosures beyond the existing requirements in Topic 235, Notes to Financial Statements, and Subtopic 350-20.

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

Under the current guidance in Subtopic 350-20, an entity is required to identify and evaluate goodwill impairment triggering events when they occur to determine whether it is more likely than not that the fair value of a reporting unit (or entity, if the entity has elected the accounting alternative for amortizing goodwill and chosen that option) is less than its carrying amount. If an entity determines that it is more likely than not that goodwill is impaired, it must test goodwill for impairment using the triggering event date as the measurement date.

The amendments in this proposed Update would allow an entity within the scope of this guidance to elect not to monitor for interim goodwill impairment triggering events and instead to evaluate the facts and circumstances as of year-end to determine whether it is more likely than not that goodwill is impaired. This option would reduce cost and complexity for preparers by aligning the triggering event evaluation date with year-end. Additionally, the Board believes that the proposed amendments may provide more relevant information for users because the triggering event evaluation would reflect the facts and circumstances present at the end of the annual reporting period for which those users receive financial statements.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be effective on a prospective basis for annual reporting periods beginning after December 15, 2019. Early adoption would be permitted for financial statements that have not yet been issued or made available for issuance.

The amendments in this proposed Update also include an unconditional one-time option for entities to adopt the alternative prospectively after its effective date without assessing preferability under Topic 250, Accounting Changes and Error Corrections.

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: Do you support introducing an accounting alternative to allow certain entities to evaluate goodwill impairment triggering events only as of the annual reporting date? Why or why not?

Question 2: Should the scope of the amendments in this proposed Update include private companies and not-for-profit entities that only report goodwill that subsequently is accounted for in accordance with Subtopic 350-20 (or any line item that would be affected by a goodwill impairment) on an annual basis? Is the scope of the proposed guidance clear? If not, why?

Question 3: As part of its broader recognition and measurement project on the accounting for goodwill, should the Board consider permitting an entity that reports goodwill that subsequently is accounted for in accordance with Subtopic 350-20 on an interim basis to evaluate goodwill impairment triggering events as of the interim reporting date rather than monitoring for triggering events throughout the interim period? Alternatively, should an entity that reports goodwill that subsequently is accounted for in accordance with Subtopic 350-20 on an interim basis be permitted to evaluate goodwill impairment triggering events as of their annual reporting date only? If yes, would you support this guidance for public and nonpublic entities? Why or why not?

Question 4: Should the proposed amendments be limited to goodwill accounted for under Subtopic 350-20? Would you support expanding the proposed amendments to other assets that are subject to triggering event evaluations, for example, long-lived assets and other intangibles? Please explain your answer.

Question 5: Would the proposed amendments be operable? Why or why not?

Question 6: Would the existing disclosure requirements in Topic 235 and Subtopic 350-20 be sufficient to provide financial statement users with decision-useful information? If not, what other disclosures would be necessary?

Question 7: Should the proposed amendments be effective for annual reporting periods beginning after December 15, 2019, on a prospective basis? Should an entity be permitted to early adopt the proposed amendments as of the beginning of any reporting period for which the entity has not yet issued financial statements or made financial statements available for issuance? If not, why?

Question 8: Should the proposed amendments include an unconditional one-time transition election allowing an entity within the scope of the guidance to prospectively adopt the proposed amendments after the effective date without applying the guidance on preferability in Topic 250? If not, why?

Question 9: Should the proposed amendments be available on an ongoing basis, or, conversely, should they be applicable for a limited time period (for example, available for reporting periods ending before December 31, 2023)? Please explain your answer.

Question 10: If a change in an entity's reporting requirements causes it to no longer meet the scope of the proposed amendments, should the entity discontinue application of the alternative on a prospective basis? If that entity meets the scope in a future period, should it be permitted to re-adopt the alternative? If so, should the transition upon re-adoption be on a prospective basis? Should the entity be required to apply the guidance on preferability in Topic 250 once it has determined it is re-eligible? Please explain your answer.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–14. 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 underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 350-20

2. Amend paragraphs 350-20-05-4 through 05-4A and 350-20-05-5 through 05-6 and their related Subsection title, with a link to transition paragraph 350-10-65-4, as follows:

Intangibles—Goodwill and Other—Goodwill

Overview and Background

General

350-20-05-4 The guidance in this Subtopic is presented in the following two Subsections:

a. General
b. Accounting Alternatives ~~Alternative~~.

350-20-05-4A Costs of developing, maintaining, or restoring internally generated goodwill should not be capitalized. For entities that do not elect the accounting alternative for amortizing goodwill included in the guidance in the Subsections outlined in paragraph 350-20-05-5A, goodwill that is recognized under the business combination guidance in Topic 805 and Subtopic 958-805 should not be amortized. Instead, it should be tested for impairment at least annually in accordance with paragraphs 350-20-35-28 through 35-32 or if the accounting alternative for a goodwill impairment triggering event evaluation is elected, in accordance with paragraphs 350-20-35-83 through 35-85.

Accounting Alternatives ~~Alternative~~

350-20-05-5 The Accounting Alternatives ~~Alternative~~ Subsections of this Subtopic provide guidance for the following:

a. An ~~an~~ entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for amortizing goodwill. If elected, ~~the~~this accounting alternative allows an eligible entity to amortize goodwill and test that goodwill for impairment upon a triggering event.
b. An entity within the scope of paragraph 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation. If elected, this accounting alternative allows an eligible entity to evaluate goodwill impairment triggering events as of its annual reporting date only.

350-20-05-5A The accounting alternatives ~~alternative~~ guidance can be found in the following paragraphs:

a. Scope and Scope Exceptions—paragraphs 350-20-15-4 through 15-6 ~~15-5~~
b. Subsequent Measurement—paragraphs 350-20-35-62 through 35-85 ~~35-82~~
c. Derecognition—paragraphs 350-20-40-8 through 40-9
d. Other Presentation Matters—paragraphs 350-20-45-4 through 45-7
e. Disclosure—paragraphs 350-20-50-4 through 50-7
f. Implementation Guidance and Illustrations~~—paragraph~~ paragraphs 350-20-55-26 through 55-30.

350-20-05-6 An entity should continue to follow the applicable requirements in Topic 350 for other accounting and reporting matters related to goodwill that are not addressed in the Accounting Alternatives ~~Alternative~~ Subsections of this Subtopic.

3. Amend paragraphs 350-20-15-3A through15-5 and the related Subsection title and add paragraphs 350-20-15-4A through 15-4B and 350-20-15-6, with a link to transition paragraph 350-10-65-4, as follows:

Scope and Scope Exceptions

General

> Transactions

350-20-15-3A Paragraphs 350-20-15-4 through ~~15-5~~15-6, 350-20-35-62 through ~~35-82~~35-85, 350-20-40-8 through 40-9, 350-20-45-4 through 45-7, 350-20-50-4 through 50-7, 350-20-55-26 through 55-30, and 323-10-35-13 provide guidance for an entity electing the accounting alternatives ~~alternative~~ in this Subtopic. See ~~paragraph~~ paragraphs 350-20-65-2 and 350-20-65-4 for transition guidance for private companies and not-for-profit entities on applying the accounting alternatives ~~alternative~~ in Subtopic 350-20.

Accounting Alternatives ~~Alternative~~

350-20-15-4 A **private company** or **not-for-profit entity** may make an accounting policy election to apply the accounting alternative for amortizing goodwill in this Subtopic~~. The guidance in the Accounting Alternative Subsections of this Subtopic applies~~ to the following transactions or activities:

a. **Goodwill** that an entity recognizes in a business combination in accordance with Subtopic 805-30 or in an **acquisition by a not-for-profit entity** in accordance with Subtopic 958-805 after it has been initially recognized and measured
b. Amounts recognized as goodwill in applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures, and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 on reorganizations.

350-20-15-4A A private company or not-for-profit entity may make an accounting policy election to apply the accounting alternative for a goodwill impairment triggering event evaluation to goodwill subsequently accounted for in accordance with Subtopic 350-20 if it only reports goodwill (or reports accounts that would be affected by a goodwill impairment such as retained earnings and net income) on an annual basis. This accounting alternative may be applied only by entities and to the transactions and activities within the scope of the alternative.

350-20-15-4B An entity that provides its users with interim financial information that presents goodwill or any line item that would be affected by a goodwill impairment and that is prepared in accordance with generally accepted accounting principles (GAAP) is outside the scope of paragraph 350-20-15-4A.

350-20-15-5 An entity within the scope of paragraph 350-20-15-4 or paragraph 350-20-15-4A ~~the preceding paragraph~~ that elects the accounting alternative for amortizing goodwill or the accounting alternative for goodwill impairment triggering event evaluation shall apply all of the related subsequent measurement, derecognition, other presentation matters, and disclosure requirements upon election. An ~~The~~ accounting alternative, once elected, shall be applied to existing goodwill and to all additions to goodwill recognized in future transactions within the scope of ~~this~~ that accounting alternative.

350-20-15-6 An entity that elects either of the accounting alternatives in this Subtopic is not required to elect or precluded from electing the other alternative.

4. Amend paragraph 350-20-35-62 and its related Subsection title and the headings preceding paragraphs 350-20-35-63, 320-20-35-65 through 35-67, 350-20-35-79, and 350-20-35-81 and add the heading preceding paragraph 350-20-35-62 and paragraphs 350-20-35-83 through 35-85 and their related heading, with a link to transition paragraph 350-10-65-4, as follows:

Subsequent Measurement

Accounting Alternatives ~~Alternative~~

> Accounting Alternative for Amortizing Goodwill

350-20-35-62 The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for ~~the subsequent measurement of~~ amortizing goodwill.

> > ~~>~~ Amortization of Goodwill

350-20-35-63 Goodwill relating to each **business combination**, **acquisition by a not-for-profit entity**, or reorganization event resulting in fresh-start reporting (amortizable unit of goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

> > ~~>~~ Recognition and Measurement of a Goodwill Impairment Loss

350-20-35-65 Upon adoption of this accounting alternative, an entity shall make an accounting policy election to test goodwill for impairment at the entity level or the **reporting unit** level. An entity that elects to perform its impairment tests at the reporting unit level shall refer to paragraphs 350-20-35-33 through 35-38 and paragraphs 350-20-55-1 through 55-9 to determine the reporting units of an entity.

> > > ~~> >~~ When to Test Goodwill for Impairment

350-20-35-66 Goodwill of an entity (or a reporting unit) shall be tested for impairment if an event occurs or circumstances change that indicate that the fair value of the entity (or the reporting unit) may be below its carrying amount (a triggering event). Paragraph 350-20-35-3C(a) through (g) includes examples of those events or circumstances. Those examples are not all-inclusive, and an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of the entity (or of a reporting unit) in determining whether to perform the goodwill impairment test. If an entity determines that there are no triggering events, then further testing is unnecessary.

> > > ~~> >~~ The Goodwill Impairment Test

350-20-35-67 Upon the occurrence of a triggering event, 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 the entity (or the reporting unit) is less than its carrying amount, including goodwill. Paragraph 350-20-35-3C(a) through (g) includes examples of those qualitative factors.

> > > ~~> >~~ Interaction of the Impairment Tests for Goodwill and Other Assets (or Asset Groups)

350-20-35-79 If goodwill and another asset (or asset group) of the entity (or the reporting unit) are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 on property, plant, and equipment (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group would be performed before the goodwill impairment test. If the asset group is impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

> > ~~>~~ Equity Method Investments

350-20-35-81 The portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 323-10-35-13 (equity method goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

> Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation

350-20-35-83 The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4A that elect the accounting alternative for a goodwill impairment triggering event evaluation.

350-20-35-84 An entity may elect to perform its goodwill impairment triggering event evaluation only as of its annual reporting date. That is, the entity would not evaluate goodwill impairment triggering events and measure any related impairment on an interim basis. An entity electing the accounting alternative shall assess whether an event or circumstance has occurred that would require an entity to test goodwill for impairment as follows:

a. For an entity that has elected the accounting alternative for amortizing goodwill, the entity's evaluation of a triggering event, as described in paragraph 350-20-35-66, shall be performed only as of its annual reporting date.
b. For an entity that has not elected the accounting alternative for amortizing goodwill:
   1. If the entity performs its annual goodwill impairment test as of its annual reporting date, the entity shall not evaluate its goodwill for impairment on an interim basis as described in paragraph 350-20-35-30.
   2. If the entity performs its annual goodwill impairment test on a date other than its annual reporting date (in accordance with paragraph 350-20-35-28), the entity's evaluation of impairment between the annual goodwill impairment test (as described in paragraph 350-20-35-30) and the annual reporting date shall be performed only as of its annual reporting date.

350-20-35-85 An entity electing this accounting alternative shall apply it only to goodwill evaluated in accordance with this Subtopic. This accounting alternative does not change the following:

a. The requirement to assess other assets for impairment (for example, long-lived assets and indefinite lived intangibles) under existing guidance. If the impairment test related to other assets would have resulted in a goodwill impairment triggering event, an entity electing this accounting alternative should consider the results of an impairment test related to other assets in connection with its goodwill impairment test only as of its annual goodwill impairment testing date and annual reporting date, as applicable.
b. The timing of when to test goodwill for impairment as part of a disposal group classified as held for sale in accordance with paragraph 360-10-35-39.
c. The requirements to test the remaining goodwill for impairment if only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of in accordance with paragraph 350-20-40-7.

5. Amend paragraph 350-20-40-8 and its related Subsection title, with a link to transition paragraph 350-10-65-4, as follows:

Derecognition

Accounting Alternatives ~~Alternative~~

350-20-40-8 The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for ~~the subsequent measurement of~~ amortizing goodwill.

6. Amend paragraph 350-20-45-4 and its related Subsection title, with a link to transition paragraph 350-10-65-4, as follows:

Other Presentation Matters

Accounting Alternatives ~~Alternative~~

350-20-45-4 The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for ~~the subsequent measurement of~~ amortizing goodwill.

7. Add paragraph 350-20-50-3A and amend paragraph 350-20-50-4 and the related Subsection title, with a link to transition paragraph 350-10-65-4, as follows:

Disclosure

Accounting Alternatives ~~Alternative~~

350-20-50-3A The information in paragraphs 350-20-50-4 through 50-7 shall be disclosed in the notes to financial statements for any entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for amortizing **goodwill**. An entity within the scope of paragraph 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation shall disclose its use of the alternative as a significant accounting policy in accordance with paragraph 235-10-50-1.

> Disclosures about Additions to Goodwill

350-20-50-4 The following information shall be disclosed in the notes to financial statements for any additions to **{remove glossary link}goodwill{remove glossary link}** in each period for which a statement of financial position is presented:

a. The amount assigned to goodwill in total and by major business combination, by major **acquisition by a not-for-profit entity**, or by reorganization event resulting in fresh-start reporting
b. The weighted-average amortization period in total and the amortization period by major business combination, by major acquisition by a not-for-profit entity, or by reorganization event resulting in fresh-start reporting.

8. Amend paragraph 350-20-55-26 and its related Subsection title and add paragraphs 350-20-55-27 through 55-30 and their related headings, with a link to transition paragraph 350-10-65-4, as follows:

Implementation Guidance and Illustrations

Accounting <u>Alternatives</u> ~~Alternative~~

> Implementation Guidance

350-20-55-26 The following flowchart provides an overview of the accounting alternative <u>for amortizing goodwill</u> for entities within the scope of paragraph 350-20-15-4.

[The remainder of this paragraph is not shown here because it is unchanged.]

<u>> Illustrations</u>

<u>> > Example 1: Illustration of the Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation</u>

<u>**350-20-55-27** This Example illustrates the effect of the accounting alternative for a goodwill impairment triggering event evaluation on the impairment conclusion for an entity within the scope of paragraph 350-20-15-4A. This Example is not indicative of every outcome that may occur because facts and circumstances surrounding triggering events are unique to each entity.</u>

<u>**350-20-55-28** Entity A adopted the accounting alternative for a goodwill impairment triggering event evaluation and performs a goodwill impairment triggering event evaluation as of its annual reporting date. Entity A also adopted the accounting alternative for amortizing goodwill in accordance with paragraph 350-20-05-5 and elected to perform an impairment test for goodwill at the entity level upon the occurrence of a triggering event only. During the second quarter, Entity A lost a significant customer. However, Entity A was able to replace that customer late in the third quarter of the same year, and the entity's operations returned to previously forecasted levels by the annual reporting date.</u>

<u>**350-20-55-29** Entity A evaluates the facts and circumstances as of the annual reporting date and concludes that no triggering event exists; therefore, no further goodwill impairment testing is necessary.</u>

<u>**350-20-55-30** If Entity A had not adopted the accounting alternative for a goodwill impairment triggering event evaluation, it would evaluate the loss of the customer that occurred in the second quarter to determine whether it is a triggering event and, if so, would evaluate whether it is more likely than not that the fair value of the</u>

entity is below its carrying value. If Entity A determines that it is more likely than not that the fair value of the entity is less than its carrying value (that is, the loss of the significant customer is an impairment indicator), then it must test goodwill for impairment using the facts and circumstances known in the second quarter and recognize any impairment as needed. If Entity A recognizes an impairment loss due to the loss of a customer that occurred in the second quarter, it is precluded from reversing the impairment loss at a future reporting date even if facts and circumstances change after recognition of the impairment. Entity A must continue to monitor for additional triggering events throughout the year.

9. Amend paragraphs 350-20-65-2 through 65-3 and their related headings and add paragraph 350-20-65-4 and its related heading, with a link to transition paragraph 350-10-65-4, as follows:

Transition and Open Effective Date Information

> Transition Related to 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*, and No. 2021-XX, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

350-20-65-2 The following represents the transition information related to 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*, and No. 2021-XX, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events,* referenced in paragraph 350-20-15-3A:

a. Upon adoption of the guidance for the accounting alternative for amortizing goodwill in the Accounting Alternatives ~~Alternative~~ Subsections of this Subtopic and the guidance in paragraph 323-10-35-13, that guidance shall be effective prospectively for new goodwill recognized after the adoption of that guidance. For existing goodwill, that guidance shall be effective as of the beginning of the first fiscal year in which the accounting alternative is adopted.
b. Goodwill existing as of the beginning of the period of adoption shall be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if an entity demonstrates that another useful life is more appropriate.

c. Subparagraph superseded by Accounting Standards Update No. 2016-03.
d. Upon adoption of the accounting alternative for amortizing goodwill, an entity shall make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level.
e. A private company or not-for-profit entity that makes an accounting policy election to apply ~~the guidance~~ the accounting alternative for amortizing goodwill in the Accounting Alternatives ~~Alternative~~ Subsections of this Subtopic for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

> Transition Related to Accounting Standards Updates No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, ~~and~~ No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and No. 2021-XX, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

350-20-65-3 The following represents the transition and effective date information related to Accounting Standards Updates No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, ~~and~~ No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and No. 2021-XX, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*:

a. The pending content that links to this paragraph shall be effective for annual and any interim impairment tests performed for periods beginning after:
   1. December 15, 2019, for **public business entities** that are **U.S. Securities and Exchange Commission (SEC) filers**, excluding entities eligible to be smaller reporting companies as defined by the SEC. The one-time determination of whether an entity is eligible to be a smaller reporting company shall be based on an entity's most recent determination as of November 15, 2019, in accordance with SEC regulations.
   2. Subparagraph superseded by Accounting Standards Update No. 2019-10.
   3. December 15, 2022, for all other entities.
b. Early adoption is permitted for interim and annual goodwill impairment tests with a measurement date on or after January 1, 2017.
c. An entity shall apply the pending content that links to this paragraph prospectively.
d. An entity shall disclose the nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable, in the fiscal period in which the change

in accounting principle is made. An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.

e. **{add glossary link}**Private companies**{add glossary link}** that have adopted the private company accounting alternative for ~~the subsequent measurement of~~ amortizing goodwill or the private company accounting alternative for a goodwill impairment triggering event evaluation but have not adopted the private company alternative for subsuming certain intangible assets into goodwill are allowed, but not required, to adopt this guidance prospectively on or before the effective date without having to justify preferability of the accounting change. Private companies that have adopted the private company alternative to subsume certain intangible assets into goodwill and, thus, also adopted the goodwill alternative are not permitted to adopt this guidance upon issuance without following the guidance in Topic 250 on accounting changes and error corrections, including justifying why it is preferable to change their accounting policies.

> Transition Related to Accounting Standards Update No. 2021-XX, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

350-20-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 2021-XX, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*:

a. The pending content that links to this paragraph shall be effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is permitted for financial statements that have not yet been issued or made available for issuance as of [date of issuance of final Update]. An entity that adopts the pending content that links to this paragraph shall apply it as of the beginning of the fiscal year in the year of adoption.
b. For an entity that adopts the pending content that links to this paragraph after its original effective date, that pending content shall be applied prospectively as of the beginning of the first fiscal year in which the accounting alternative is adopted.
c. An entity that makes an accounting policy election to apply the pending content that links to this paragraph for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

Amendments to Subtopic 323-10

10. Amend paragraph 323-10-35-13, with a link to transition paragraph 350-10-65-4, as follows:

Investments—Equity Method and Joint Ventures—Overall

Subsequent Measurement

> The Equity Method—Overall Guidance

> > Basis Difference

323-10-35-13 A difference between the cost of an investment and the amount of underlying equity in net assets of an investee shall be accounted for as if the investee were a consolidated subsidiary. Paragraph 350-20-35-58 requires that the portion of that difference that is recognized as goodwill not be amortized. However, if an entity within the scope of paragraph 350-20-15-4 elects the accounting alternative for amortizing goodwill in Subtopic 350-20 ~~on goodwill~~, the portion of that difference that is recognized as goodwill shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. Paragraph 350-20-35-59 explains that equity method goodwill shall not be reviewed for impairment in accordance with paragraph 350-20-35-58. However, equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.

Amendments to Subtopic 805-20

11. Amend paragraph 805-20-15-4 and its related heading, with a link to transition paragraph 350-10-65-4, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Scope and Scope Exceptions

Accounting Alternatives ~~Alternative~~

805-20-15-4 An entity that elects this accounting alternative must adopt the accounting alternative for amortizing **goodwill** in the Accounting Alternatives ~~Alternative~~ Subsections of Topic 350-20 on intangibles—goodwill and other. If the accounting alternative for amortizing goodwill was not adopted previously, it should be adopted on a prospective basis as of the adoption of the accounting alternative in this Subtopic. For example, upon adoption, existing goodwill should be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. However, an entity that elects the accounting alternative for amortizing goodwill is not required to adopt the accounting alternative in this Subtopic.

Amendments to Subtopic 805-30

12. Amend paragraph 805-30-50-4, with a link to transition paragraph 350-10-65-4, as follows:

Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred

Disclosure

> The Financial Effects of Adjustments That Relate to Business Combinations That Occurred in the Current or Previous Reporting Periods

805-30-50-4 Paragraph 805-10-50-5 identifies the second objective of disclosures about the effects of business combinations that occurred in the current or previous reporting periods. To meet the objective in that paragraph, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

a. For each reporting period after the acquisition date until the entity collects, sells, or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires, all of the following:
    1. Any changes in the recognized amounts, including any differences arising upon settlement
    2. Any changes in the range of outcomes (undiscounted) and the reasons for those changes
    3. The disclosures required by Section 820-10-50.
b. A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period as required by paragraph 350-20-50-1. A **private company** or **not-for-profit entity** that adopts the accounting alternative <u>for amortizing goodwill</u> in Subtopic 350-20 is not required to disclose the reconciliation.

Amendments to Subtopic 958-805

13. Amend paragraph 958-805-35-5, with a link to transition paragraph 350-10-65-4, as follows:

Not-for-Profit Entities—Business Combinations

Subsequent Measurement

Acquisition by a Not-for-Profit Entity

> Goodwill Acquired

958-805-35-5 For guidance, including the related accounting alternative on subsequently measuring goodwill recognized in an acquisition of a business or a nonprofit activity, see Subtopic 350-20. See paragraph 350-20-65-2 for transition guidance on applying the accounting alternative <u>for amortizing goodwill</u> in Subtopic 350-20 <u>and paragraph 350-20-65-4 for transition guidance on applying the accounting alternative for a goodwill impairment triggering event evaluation</u>.

14. Amend paragraph 958-805-50-17, with a link to transition paragraph 350-10-65-4, as follows:

Disclosure

Acquisition by a Not-for-Profit Entity

958-805-50-17 An NFP acquirer that does not adopt the accounting alternative <u>for amortizing goodwill</u> in Subtopic 350-20 ~~on intangibles—goodwill and other—goodwill~~ shall provide a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period as required by paragraph 350-20-50-1 for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively.

The amendments in this proposed Update were approved for publication by six members of the Financial Accounting Standards Board. Mr. Schroeder voted against publication of the amendments. His alternative view is set out at the end of the basis for conclusions.

Members of the Financial Accounting Standards Board:

Richard R. Jones, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Susan M. Cosper
Marsha L. Hunt
R. Harold Schroeder

Background Information, Basis for Conclusions, and Alternative View

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 simplify the goodwill impairment triggering event evaluation. The proposed amendments would allow private companies and not-for-profit entities that only report goodwill that subsequently is accounted for in accordance with Subtopic 350-20 (or any line item that would be affected by a goodwill impairment) (in-scope financial information) on an annual basis to perform the evaluation of triggering events only as of the annual reporting date. Entities electing the proposed amendments would not be required to monitor for triggering events throughout the annual reporting period. Instead, they would assess the facts and circumstances as of the annual reporting date to determine whether it is more likely than not that goodwill is impaired.

BC3. The amendments in this proposed Update would not affect the other aspects of the subsequent measurement of goodwill or the evaluation of triggering events for assets other than goodwill.

Background Information

BC4. Subtopic 350-20 provides guidance on the accounting for goodwill. Under that Subtopic, there are both general guidance and a private company accounting alternative ("accounting alternative for amortizing goodwill") that includes certain provisions that simplify the goodwill impairment test for private companies and not-for-profit entities. Those provisions include the following:

a. Amortize goodwill on a straight-line basis over 10 years or a shorter period if an entity determines that another useful life is more appropriate
b. Forgo performing an annual impairment test and, instead, test goodwill for impairment only when a triggering event occurs
c. Test goodwill for impairment at the entity or reporting unit level.

Entities that apply the accounting alternative for amortizing goodwill are still required to monitor for and evaluate triggering events throughout the year.

BC5. When a triggering event occurs, under the current guidance in Subtopic 350-20, an entity is required to perform an analysis of whether it is more likely than not that the fair value of a reporting unit (or entity, if an entity has elected the accounting alternative for amortizing goodwill and chosen that option) is less than its carrying value. This is required regardless of whether the entity elects the accounting alternative for amortizing goodwill. If the entity concludes that it is more likely than not that goodwill is impaired, then it must test goodwill for impairment. The triggering event analysis and resulting goodwill impairment test, if any, must be performed on the date that a triggering event occurs.

BC6. During recent stakeholder meetings with the FASB, some stakeholders expressed concern about the cost and complexity for private companies in applying the triggering event analysis (and measuring any resulting impairment) at an interim date for entities that only report annual financial statements. Those stakeholders explained that this issue has become exacerbated by the effects from the COVID-19 pandemic because of the uncertainty in the economic environment and the significant developments and changes in facts and circumstances that occurred after the initial onset of the pandemic. Additionally, those stakeholders stated that this issue is highlighted by, but not limited to, the current environment with the pandemic because private companies often may perform this analysis as part of their annual financial reporting process. Therefore, it may be difficult for them to determine whether there was a triggering event during an interim date and, if so, the date on which the triggering event occurred.

BC7. Those stakeholders also asserted that performing a goodwill impairment evaluation on the date that a triggering event occurs may not provide useful information for users of private company financial statements. If a private company that only reports in-scope financial information on an annual basis determines that it has a goodwill impairment triggering event on an interim date but the facts and circumstances that led to the triggering event do not exist at the end of the annual reporting period, an impairment charge may not provide meaningful information to users of financial statements if the entity reports positive financial results at year-end but recognizes an impairment charge in its annual financial statements.

Benefits and Costs

BC8. 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. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC9. While stakeholders raised this issue in the context of the uncertain economic environment resulting from the COVID-19 pandemic, the Board believes that the fundamental issue being highlighted is not solely related to the pandemic. The issue relates to the cost and complexity of applying existing accounting guidance in an area where the Board has received consistent user feedback that there is limited relevance to the users of financial statements for certain entities.

BC10. The Board does not anticipate a loss of decision-useful information for users because feedback has indicated that users of private company and not-for-profit financial statements do not place a significant value on noncash charges like goodwill impairment. The staff performed supplemental outreach for this project with users of private company and not-for-profit financial information as well as analyzed the extensive feedback received as part of the 2019 FASB Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*. Those stakeholders stated that users of private company and not-for-profit financial statements focus on cash flows and liquidity and solvency metrics, while users of not-for-profit financial statements also focus on the organization's service efforts and whether the organization is achieving its mission. Additionally, because the users of financial statements within the scope of this alternative only receive in-scope financial information annually, information that results from a triggering event analysis that is performed as of year-end may be more relevant for those users because it would reflect the facts and circumstances as of the annual reporting date.

BC11. The Board anticipates that the amendments in this proposed Update would reduce costs for those entities that elect to apply them. The proposed amendments would provide the benefit of simplifying the triggering event evaluation by allowing private companies and not-for-profit entities that report in-scope financial information on an annual basis to perform a triggering event evaluation as of the end of the annual reporting period. That would allow those entities to align the goodwill triggering event evaluation with their other annual reporting processes, such as calculating debt covenants. Additionally, an entity that elects this alternative and applies the accounting alternative for amortizing goodwill or aligns its annual goodwill impairment test date with its annual reporting date would only have to perform a triggering event analysis once a year at its annual reporting date. The proposed amendments would not create new accounting requirements and would be optional.

Basis for Conclusions

BC12. The amendments in this proposed Update would allow a private company or not-for-profit entity that only reports in-scope financial information on an annual basis to perform the identification and evaluation of a triggering event for goodwill impairment as of its annual reporting date only.

Scope

BC13. The Board considered what entities and accounts should be within the scope of the proposed amendments and how the proposed amendments would interact with existing guidance. The Board decided that the amendments in this proposed Update would apply to private companies and not-for-profit entities that only report goodwill that subsequently is accounted for in accordance with Subtopic 350-20 (or any line item that would be affected by a goodwill impairment) (in-scope financial information) on an annual basis and would not be limited to those entities that also have elected the accounting alternative for amortizing goodwill.

Private Company Decision-Making Framework

BC14. The Private Company Decision-Making Framework allows the Board to create accounting alternatives for private companies when information is not relevant to users or when it is relevant but overly costly or complex for preparers to provide. The Board believes that the amendments in this proposed Update are an accounting alternative rather than a practical expedient because the accounting result of applying the proposed amendments may differ from the accounting result of applying existing GAAP.

BC15. The Board reviewed the Private Company Decision-Making Framework to determine whether this issue meets the criteria for providing a private company accounting alternative.

BC16. The Board determined that relief from monitoring for interim triggering events and, therefore, from performing interim goodwill impairment testing would significantly reduce cost for entities because the impairment testing process on an interim basis may require that entities develop interim balance sheets and cash flow forecasts.

BC17. The Board learned through outreach that users of private company financial information are generally lenders that focus on liquidity and tangible net worth as opposed to noncash charges such as goodwill impairment. Therefore, the timing of when the goodwill impairment triggering event evaluation is performed, as long as it is completed as of the annual reporting date, may be irrelevant for users of entities within the scope of the alternative.

BC18. The Board concluded that there could be a significant cost for entities within the scope of this alternative to perform an interim triggering event analysis that may not provide relevant information at the annual reporting date if the facts and circumstances surrounding the triggering event change.

BC19. The Board determined that the Private Company Decision-Making Framework supports providing an accounting alternative for the timing of assessing goodwill impairment triggering events because the relevance to users is low, the cost to preparers of providing the information is high, and there is no practical expedient available. The Board notes that this position is supported by the existence of other accounting alternatives on initial and subsequent measurement of goodwill that have previously been extended to the same population of entities on the basis of the lack of usefulness and the cost and complexity of providing information related to goodwill.

Not-for-Profit Entities

BC20. In 2019, the Board extended the accounting alternative for amortizing goodwill to not-for-profit entities. The Board determined that users of not-for-profit financial statements typically do not find goodwill impairment to be relevant or decision-useful information. Feedback received during that project indicated that, instead, users of not-for-profit financial statements focus on cash flows, liquidity and solvency metrics, as well as the organization’s service efforts and whether it is achieving its mission.

BC21. Accounting Standards Update 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,* included not-for-profit entities that are conduit bond obligors or that otherwise meet the definition of a public entity in the scope expansion. Those entities were included because despite the fact that they file publicly available data, the needs of their users are aligned with other not-for-profit entities, and the Board noted that the lack of relevance of the information outweighed the fact that it was made publicly available. The Board determined that the same reasoning could be applied to the scope of the amendments in this proposed Update. The Board observes that many not-for-profit entities that have public debt file quarterly financial information. If that financial information includes goodwill and is prepared in accordance with GAAP, those entities would not be within the scope of this guidance.

Entities That Report Goodwill on an Annual Basis Only

BC22. The Board decided to limit the proposed accounting alternative to entities that report in-scope financial information on an annual basis only. The Board believes that those entities face the greatest cost and complexity in performing interim triggering event evaluations because those evaluations may take place long after the events or circumstances occurred, such as after year-end while preparing their annual financial statements. Preparing the necessary estimates and financial statement balances as of an interim triggering event date may be difficult for those entities to do without using hindsight. In addition, the severity and duration of a disruption would factor into an evaluation of whether a trigger was present. An entity would need to determine the appropriate interim time frame to consider in evaluating whether a potential triggering event occurred during the year or whether there was a temporary disruption that reversed itself, negating the need to do an evaluation. The extent of judgment involved also can make those evaluations costly and complex to audit. The Board considered that if a user requires in-scope financial information to be reported only annually, this may indicate that the user has less informational needs associated with interim impairment information.

BC23. The Board determined that entities that report in-scope financial information more frequently than on an annual basis may be less affected by the challenges of performing an interim goodwill impairment triggering event analysis because the time between reporting periods is shorter and therefore the challenges related to hindsight are less prevalent for those entities. Additionally, those entities are expected to have a greater ability to prepare financial information as of a triggering event date because they already have the systems and processes in place to report interim financial information. The Board also considered that a user requiring an entity to report in-scope financial information more frequently than annually may have greater informational needs associated with interim impairment information than a user who requires the same information to be reported on an annual basis only. Therefore, the Board decided to limit the proposed accounting alternative to private companies and not-for-profit entities that only report in-scope financial information on an annual basis.

BC24. The Board acknowledges that many entities provide users of their financial statements (for example, lenders, regulators, and investors) with some level of financial information on a basis that is more frequent than annually. Topic 270, Interim Reporting, describes interim financial information in paragraph 270-10-05-1 as follows: "Interim financial information may include current data during a fiscal year on financial position, results of operations, comprehensive income, and cash flows. This information may be issued on a monthly or quarterly basis or at other intervals and may take the form of either complete financial statements or summarized financial data." The Board observes that the requirement to provide interim financial information is generally determined by the relationships between entities and their users and may range from a full set of financial statements and notes in accordance with Topic 270, to a balance sheet and income statement, and to some specified balances that a user may use as inputs to calculate covenants or other ratios or metrics.

BC25. If an entity provides interim financial information that includes goodwill to its users that is prepared in accordance with GAAP, that entity would be precluded from applying the proposed accounting alternative. The Board believes that it would be misleading to allow entities that provide interim financial information of this type to delay evaluating goodwill for impairment until the end of the annual reporting period. The Board believes that interim financial information (for example, a balance sheet, an income statement, and specified balances used to compute financial statement ratios) that does not include an evaluation of interim triggering events has not been prepared in accordance with GAAP and it would be misleading to represent it as such.

BC26. In the basis for conclusions in Accounting Standards Update No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, the Board discussed the reporting requirements of public not-for-profit entities. Those entities are required to post GAAP-compliant financial statements in the Electronic Municipal Market Access (EMMA) system on an annual basis, which is governed by the SEC and the Municipal Securities Rulemaking Board (MSRB). Public not-for-profit entities may also be required to post interim GAAP-compliant financial statements, or interim financial information, depending on the requirements that each entity negotiates with its underwriter. Therefore, a public not-for-profit entity would need to look to its individual reporting requirements to determine whether its interim reporting requirements include in-scope financial information to determine whether it would be precluded from applying the proposed accounting alternative.

Private Companies Intending to Become Public Business Entities

BC27. Private company accounting alternatives apply only to private companies (and not-for-profit entities, when the Board includes those entities within scope as permitted by the Private Company Decision-Making Framework). Private companies are required to present historical interim and annual financial statements as part of a public offering or whenever they meet the definition of a public business entity as defined in the Master Glossary of the Codification. An entity that becomes a public business entity is required to reverse the effect of any private company accounting alternatives recognized in its historical financial statements. Stakeholder feedback has indicated that considerable time and effort are needed for private companies wishing to go public to reverse the existing accounting alternative for amortizing goodwill.

BC28. The Board acknowledges that reversing the proposed accounting alternative would pose a challenge if a private company adopting the alternative wished to become a public business entity. To reverse the effects, an entity would need to go back to the date of adoption of the accounting alternative and evaluate (without hindsight) whether there were interim triggering events that would have resulted in a goodwill impairment during any of the interim periods and, if so, measure that impairment as of the date of the interim triggering event. However, those burdens are likely no more significant than would be the case for a private company that elected the alternative to amortize goodwill that subsequently elected to go public. The Board cautions entities that may eventually become public business entities to consider the potential future costs before electing this or any other proposed alternative.

Accounts within Scope

BC29. The Board considered whether to expand the proposed alternative to other assets such as long-lived assets and other intangibles, which are tested for impairment when a triggering event occurs.

BC30. The Board considered the differences in the nature of goodwill and long-lived assets and other intangibles and the effort required to test those assets for impairment. The Board determined that users of private company and not-for-profit entity financial statements find information about those types of intangibles assets and long-lived assets to be of greater relevance than that of goodwill. For example, property, plant, and equipment is included in the calculation of tangible net worth, whereas goodwill is generally excluded.

BC31. The Board also determined that the carrying value and fair value of other long-lived assets and intangibles are less costly to assess than goodwill. That is because those assets or asset groups are more discrete and interim information about their carrying value is readily available, whereas calculating the carrying value of a reporting unit generally requires the preparation of an interim balance sheet. Similarly, the future cash flows from an asset or asset group are usually easier to identify and less time consuming and costly to assess than the future cash flows of a reporting unit (or an entity, for those entities that have elected the accounting alternative for amortizing goodwill and chosen that option).

BC32. Because information about impairment of other types of long-lived assets is relevant to users, and less costly and complex for preparers, the Board determined that the Private Company Decision-Making Framework would likely not support extending a similar accounting alternative for those assets. Therefore, the Board decided to extend the proposed alternative only to the evaluation of the triggering event evaluation for goodwill. Furthermore, the Board decided to explicitly prohibit analogizing to the new accounting alternative for long-lived assets and other intangibles.

BC33. The Board determined that the alternative would apply to all goodwill that is tested for impairment in accordance with Subtopic 350-20. The proposed alternative would not apply to equity method goodwill because the subsequent measurement of equity method goodwill is accounted for under a separate impairment model than the subsequent measurement of goodwill recognized in a business combination or a reorganization.

Interaction with Other Guidance

BC34. The Board considered whether to limit the scope of the proposed alternative to entities that had adopted the accounting alternative for amortizing goodwill. The Board also considered whether to limit the scope to entities that had adopted the accounting alternative to subsume certain intangible assets into goodwill. The Board noted that allowing an entity to adopt the proposed accounting alternative separately from the existing accounting alternatives would allow a larger population of entities to potentially benefit from the guidance. Therefore, the Board determined that entities would be able to apply the proposed alternative either separately from the existing accounting alternatives for goodwill or together with the existing accounting alternatives for goodwill.

BC35. Additionally, the Board considered limiting the use of the proposed accounting alternative to entities that had adopted the amendments in Accounting Standards Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 of the goodwill impairment test. The effective date of the amendments in that Update was delayed by the amendments in Update 2019-10 to allow entities to align the elimination of Step 2 with their adoption of the amendments in the current expected credit losses standard (Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*). However, the Board determined that there was no reason to require an entity to adopt the amendments in Update 2017-04 to adopt the proposed accounting alternative because the proposed accounting alternative affects the timing of assessing triggering events (and, therefore, potentially performing an impairment test) but does not affect the test itself. The Board notes that the amendments in Update 2017-04 can be early adopted, and it expects that many entities that find themselves in a position to perform an impairment test for the first time since those amendments were issued may choose to early adopt that guidance to further reduce the cost and complexity of impairment testing.

BC36. Other types of long-lived assets and other intangible assets are evaluated for impairment on an interim basis. Subtopic 350-20 requires those other assets to be assessed for impairment before goodwill and any impairment of those assets to be included in the carrying value that is used in the goodwill impairment test. Therefore, the amendments in this proposed Update would not affect the ordering of impairment testing.

Availability of the Proposed Guidance on a Permanent Basis

BC37. Stakeholders raised this issue about the timing of goodwill impairment testing in the context of the macroeconomic effects of the COVID-19 pandemic, which are expected to broadly affect most entities that report financial statements. The Board considered whether to limit the proposed accounting alternative to triggering events and reporting periods affected by the COVID-19 pandemic or whether to make it available on a permanent basis.

BC38. The Board considered that it would be difficult to determine what periods have been or will be affected by the COVID-19 pandemic because the pandemic has had a large-scale impact on the economy and the full extent of that impact will be unknown at the time that a final Accounting Standards Update on the amendments in this proposed Update would be released.

BC39. Stakeholders indicated that although the request for relief arose because of the COVID-19 pandemic, the relevance of interim goodwill impairment information for users of private company and not-for-profit financial statements is the same regardless of whether an impairment is associated with the pandemic. Stakeholders also provided feedback that it would be difficult to determine a cut off for when a reporting period is no longer affected by COVID-19 and that the subjectivity and judgment that might be involved with such an assessment would increase cost and complexity.

BC40. The Board decided to provide the accounting alternative on an ongoing basis and not to limit it to reporting periods affected by the pandemic. The Board notes that the criteria in the Private Company Decision-Making Framework are met with respect to cost and complexity and user relevance even when considering this issue beyond the effect of the pandemic, and the Board does not believe that limiting the availability of the alternative is necessary.

Other Considerations

BC41. When an entity disposes of part of a reporting unit that constitutes a business, it includes the goodwill associated with that business in the carrying amount used to determine the gain or loss on disposal. Goodwill is allocated on the basis of the relative fair value of the portion of the reporting unit disposed and the portion that is retained. Paragraph 350-20-40-7 requires that an entity test the remaining portion of the goodwill for impairment at the disposal date. This proposed Update would not change the timing of, or requirement to, perform that test.

BC42. However, the Board notes that paragraph 350-20-35-3C(f) indicates that "a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit" would be considered a triggering event. The proposed Update would allow an entity to evaluate that triggering event as of its annual reporting date, regardless of when during the year the disposal became more likely than not, so long as the disposal was not completed during the reporting period.

Annual Goodwill Impairment Testing Not Performed on Annual Reporting Date

BC43. Entities that have not adopted the accounting alternative for amortizing goodwill are required to test goodwill for impairment annually. Some entities perform their annual impairment test at a date other than at the annual reporting date in accordance with paragraph 350-20-35-28. For example, an entity may test for impairment on October 1 for the fiscal year ended December 31. The provisions of this proposed alternative do not preclude entities from continuing to perform their annual impairment test at a date other than the annual reporting date.

BC44. However, if those entities adopt the provisions of this proposed alternative, they would not need to monitor for triggering events before, or after, the annual impairment test, except for on the annual reporting date.

Disclosure

BC45. The Board considered whether to add additional disclosure requirements for entities that adopt this proposed alternative. The Board considered whether the current disclosures about the adoption of accounting alternatives and application and results of the triggering event evaluation will continue to provide adequate decision-useful information if an entity adopts the proposed alternative.

BC46. The Board decided not to require entities to provide additional disclosures if they adopt this proposed alternative. Paragraph 235-10-50-1 requires an entity to disclose significant accounting policies that it has adopted. The Board determined that the existing disclosure requirements are sufficient to require disclosure about the application of the proposed alternative.

BC47. Under the proposed accounting alternative, an entity reviews the facts and circumstances including the results of operations, significant events, or transactions that occurred during the year to determine whether a triggering event exists at year-end. The Board considered requiring disclosure of potential triggering events that occurred during the year but based on facts and circumstances at year-end are not considered triggering events. Some user feedback indicated that the triggering event itself has informational value. However, the Board considered that users of financial statements of private companies and not-for-profit entities tend to have greater access to management than users of public company financial statements. Therefore, users of financial statements may have access to information that may indicate that an entity is undergoing operational distress. Additionally, the Board concluded that there are existing disclosure requirements for an impairment event (paragraphs 350-20-50-2 through 50-3 for entities not electing the accounting alternative for amortizing goodwill and paragraphs 350-20-50-6 through 50-7 for entities that do elect the accounting alternative for amortizing goodwill) that currently require an entity to disclose the facts and circumstances surrounding the impairment. In addition, disclosure of potential triggering events would represent a significant expansion of disclosure requirements for private companies and would represent a disclosure of a potential impairment that has not occurred.

BC48. Certain stakeholders indicated that requiring disclosure of interim triggering events that are not present at year-end may reduce the relief provided by the proposed alternative because entities would be required to monitor for triggering events during the year even if they are not present or evaluated at year-end.

International Financial Reporting Standards

BC49. For entities within the scope of the amendments in this proposed Update, there already is an inherent lack of comparability with IFRS Standards for the initial and subsequent measurement of goodwill. Under International Accounting Standard 36, *Impairment of Assets*, entities are required to test goodwill for impairment on an annual basis or more frequently if there is an indication of impairment, similar to existing GAAP for entities that have not adopted the provisions of paragraphs 350-20-35-63 through 35-64. However, under IFRS Standards, the cash generating unit, which is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets, is the unit of account that is used for testing nonfinancial assets for impairment.

BC50. Under IFRS Standards, impairment charges allocated to goodwill cannot be reversed. However, revaluation of impairment charges for long-lived assets and intangibles other than goodwill is permitted.

BC51. The Board noted that IFRS Standards do not permit accounting treatment similar to the accounting alternative for amortizing goodwill. However, they provide alternative accounting standards for entities that report under IFRS Standards for small- and medium-sized entities. Those entities are permitted to amortize goodwill and assess whether there is any indication that goodwill is impaired each reporting period. Despite this, there may still be varied comparability based on the different elections made and alternatives adopted by private companies.

Effective Date and Transition

BC52. The Board decided that the amendments in this proposed Update should be effective for annual reporting periods beginning after December 15, 2019.

BC53. The Board decided that the amendments in this proposed Update should be applied on a prospective basis. Retrospective application would potentially result in the reversal of interim impairment charges recognized in prior years if the facts and circumstances that led to those impairment charges had changed by year-end, which may cause additional cost and complexity.

BC54. The Board also decided to allow entities within the scope to early adopt the proposed amendments for financial statements not yet issued or made available to be issued as of the date that the proposed amendments are issued as a final Update. The Board believes that relief from the assessment of interim goodwill impairment triggering events is an acceptable change that reduces cost and complexity and therefore should be made available to as many entities as possible, including those with non-calendar year-ends or who had not previously issued financial statements for other reasons.

BC55. Like other private company accounting alternatives, the Board decided to provide an unconditional one-time election to entities within the scope of the proposed amendments to elect the accounting alternative on a prospective basis after its effective date without having to apply the guidance in Topic 250. Topic 250 requires an entity electing an accounting alternative after its effective date to support that the alternative is preferable and to apply the accounting change on a retrospective basis. In Accounting Standards Update No. 2016-03, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance,* the Board allowed entities that elect private company alternatives existing at that time to adopt on this basis and recommended that the Board consider allowing similar transition provisions when providing future private company accounting alternatives.

Alternative View

BC56. Mr. Schroeder supports the scope of this proposed Update and its objective to provide accounting relief in a period of economic stress. The relief would be achieved by moving to an evaluation of goodwill impairment triggering events existing as of the annual reporting date. This change would differ from the current requirement to assess those events when they occur during an earlier interim period, which is a requirement that would remain in effect for all public business entities. However, he would only provide this relief on a temporary basis and allow the separate goodwill project currently on the Board's technical agenda to seek much broader improvements to subsequent accounting for goodwill and intangible assets for all entities.

BC57. While the amendments in this proposed Update may address a time-sensitive need for cost reduction among some entities, Mr. Schroeder believes that those needs should not take priority over the Board's overarching mission of providing decision-useful information for investors and other users of financial reporting. He also believes that any cost reductions will diminish the later in the year that a triggering event occurs.

Temporary Relief

BC58. As an alternative, Mr. Schroeder would support a temporary option to apply the changes in the proposed Update. Election of such an option would provide targeted relief for those most in need. Furthermore, the temporary aspect he suggests would provide the Board with time to complete its active consideration of more wholistic alternatives that achieve the Board's mission. One such alternative could be using an allowance that would permit a reversal if events develop differently than were anticipated.

BC59. Mr. Schroeder notes that the “sunset” date (for example, financial statements dated no later than December 31, 2021) of any temporary relief could be revisited as necessary or based on progress in the previously mentioned broader goodwill project.

Need for Disclosures

BC60. Regarding the Board’s mission, Mr. Schroeder is concerned that the amendments in this proposed Update would not require disclosures of decision-useful information about any triggering events that occurred during the year. This could occur when those events are subsequently (either wholly or partially) overcome before year-end, thereby reducing or eliminating an impairment. In those situations, no disclosures would be required under the proposed amendments.

BC61. The Board’s decision to require no specific disclosures is based on supplemental stakeholder feedback received during outreach on this project, in addition to feedback received as part of the 2019 Invitation to Comment on goodwill. That feedback suggested that users only care about whether an impairment exists at the end of the year. In Mr. Schroeder’s view, disclosing interim triggering events would provide a more complete financial picture and could avoid the masking of events that might highlight operating weaknesses. While a single triggering event may not be conclusive that impairment exists, it raises a red flag.

BC62. The potential for diminished comparability with other private entities is another concern. Mr. Schroeder believes this will occur because a private entity that reports quarterly (and is excluded from the proposed Update’s scope) is more likely—for an otherwise same fact pattern—to report an impairment than would an entity within its scope. Adding disclosures by entities within this proposed Update’s scope about the existence of interim triggering events could partially mitigate that concern.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would not require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that improvements to the Taxonomy are required should provide their comments and suggested improvements at xbrled@fasb.org.