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ACCOUNTING STANDARDS UPDATE

No. 2010-28
December 2010

Intangibles—Goodwill and Other (Topic 350)

When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

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CONTENTS

Page Numbers

Summary

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

Under Topic 350 on goodwill and other intangible assets, testing for goodwill impairment is a two-step test. When a goodwill impairment test is performed (either on an annual or interim basis), an entity must assess whether the carrying amount of a reporting unit exceeds its fair value (Step 1). If it does, an entity must perform an additional test to determine whether goodwill has been impaired and to calculate the amount of that impairment (Step 2). The objective of this Update is to address questions about entities with reporting units with zero or negative carrying amounts because some entities concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. As a result of that conclusion, some constituents raised concerns that Step 2 of the test is not performed despite factors indicating that goodwill may be impaired. The amendments in this Update do not provide guidance on how to determine the carrying amount or measure the fair value of the reporting unit.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative.

What Are the Main Provisions?

The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples in paragraph 350-20-35-30, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

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

The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. As a result, current GAAP will be improved by eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. As a result, goodwill impairments may be reported sooner than under current practice.

When Will the Amendments Be Effective?

For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted.

For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities.

Upon adoption of the amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings as required by Section 350-20-35.

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

The provisions provide guidance on when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Entities that follow IFRS use a different impairment model under IAS 36, *Impairment of Assets,* which is a single-step goodwill impairment test.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 350-20

2. Add paragraph 350-20-35-8A, amend paragraphs 350-20-35-6 and 350-20-35-30, with a link to transition paragraph 350-10-65-2, and amend paragraph 350-20-35-7, with no link to a transition paragraph, as follows:

Intangibles—Goodwill and Other—Goodwill

Subsequent Measurement

> Overall Accounting for Goodwill

350-20-35-1 **Goodwill** shall not be amortized. Instead, goodwill shall be tested for impairment at a level of reporting referred to as a **reporting unit.** (Paragraphs 350-20-35-33 through 35-46 provide guidance on determining reporting units.)

350-20-35-2 Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The fair value of goodwill can be measured only as a residual and cannot be measured directly. Therefore, this Subtopic includes a methodology to determine an amount that achieves a reasonable estimate of the value of goodwill for purposes of measuring an impairment loss. That estimate is referred to as the implied fair value of goodwill.

350-20-35-3 The two-step impairment test discussed in paragraphs 350-20-35-4 through 35-19 shall be used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any).

> Recognition and Measurement of an Impairment Loss

> > Step 1

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

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

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

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

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

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

> When to Test Goodwill for Impairment

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

350-20-35-29 A detailed determination of the fair value of a reporting unit may be carried forward from one year to the next if all of the following criteria have been met:

a. The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination. (A recent significant acquisition or a reorganization of an entity’s segment reporting structure is an example of an event that might significantly change the composition of a reporting unit.)

b. The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.
c. Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

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

a. A significant adverse change in legal factors or in the business climate
b. An adverse action or assessment by a regulator
c. Unanticipated competition
d. A loss of key personnel
e. A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of
f. The testing for recoverability under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 of a significant asset group within a reporting unit
g. Recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

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

3. Add paragraph 350-10-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*

350-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts:*

a. The pending content that links to this paragraph shall be effective for a **public entity** for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted.

b. The pending content that links to this paragraph shall be effective for a **nonpublic entity** for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may elect to early adopt the pending content that links to this paragraph using the effective date for public entities in (a).

c. Upon adoption of the pending content that links to this paragraph, an entity must assess whether it is more likely than not that a goodwill impairment exists for each reporting unit with a zero or negative carrying amount. If it is more likely than not that a goodwill impairment exists, the second step of the goodwill impairment test shall be performed (using the date of adoption for purposes of this step) to measure the amount of impairment loss, if any.

d. The pending content that links to this paragraph shall be adopted by recording a cumulative-effect adjustment to beginning retained earnings in the period of adoption.

4. Amend paragraph 350-20-00-1, by adding the following items to the table, as follows:

350-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
350-20-35-6	Amended	2010-28	12/17/10
350-20-35-7	Amended	2010-28	12/17/10
350-20-35-8A	Added	2010-28	12/17/10
350-20-35-30	Amended	2010-28	12/17/10

5. Amend paragraph 350-10-00-1, by adding the following item to the table, as follows:

350-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Nonpublic Entity	Added	2010-28	12/17/10
Public Entity	Added	2010-28	12/17/10
350-10-65-2	Added	2010-28	12/17/10

The amendments in this Update were adopted by the affirmative vote of four members of the Financial Accounting Standards Board. Mr. Lawrence W. Smith dissented.

Mr. Smith objects to the issuance of this Accounting Standards Update. Mr. Smith agrees with the concept of requiring the use of qualitative factors in assessing whether a goodwill impairment exists when there is a reporting unit with a nominal carrying amount; however, he objects to the establishment of a bright line to determine when qualitative factors should be considered. Mr. Smith believes that the masking of a goodwill impairment by a reporting unit with a positive fair value can just as easily occur with reporting units with nominal, positive carrying amounts as it can with reporting units with zero or negative carrying amounts. Mr. Smith would have supported the development of a principle to address these concerns rather than the use of a bright line that fails to address similar situations.

Leslie F. Seidman, *Acting Chairman*
Russell G. Golden
Thomas J. Linsmeier
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. Section 350-20-35 provides guidance that states that Step 2 of the goodwill impairment test should be performed when the carrying amount of the reporting unit exceeds its fair value. However, questions were raised with respect to entities with reporting units with zero or negative carrying amounts because some entities concluded that Step 1 of the test is passed because the fair value of their reporting unit will generally be greater than zero. As a result of that conclusion, some constituents raised concerns that Step 2 of the test is not performed despite factors indicating that goodwill may be impaired.

Basis for Conclusions

BC3. At the September 16, 2010 EITF meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 10-A, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." A proposed Accounting Standards Update was issued on October 6, 2010, with a comment period that ended on November 5, 2010. Fourteen comment letters were received on the proposed Update.

BC4. The Task Force evaluated the different approaches used to calculate the carrying amount of reporting units. Some Task Force members thought choosing an approach for calculating the carrying amount of a reporting unit was an accounting principle choice, while others thought it was a choice of estimation methods. One Task Force member was concerned that this diversity would effectively allow a publicly traded single reporting unit to look to something other than its quoted market price as evidence of fair value. The Task Force decided to address the concerns about diversity in practice without mandating an approach for calculating the carrying amount of a reporting unit for purposes of Step 1 of the goodwill impairment test, even for entities with single reporting units. The Task Force observed that the manner in which the fair value and carrying amount of the reporting unit is determined should be consistent.

BC5. The Task Force decided that entities with reporting units whose carrying amounts are zero or negative should perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The Task Force believes that this guidance is applicable regardless of the method used by an entity to calculate its carrying amount. In determining whether it is more likely than not that a goodwill impairment exists, an entity would consider whether there are any adverse qualitative factors.

BC6. The Task Force considered a proposal by the FASB's Private Company Financial Reporting Committee (PCFRC) that suggested that nonpublic entities should replace the quantitative test in Step 1 of the goodwill impairment test with the qualitative factors included in the amendments in this Update. The Task Force also considered a comment from one Board member who indicated that applying the qualitative criteria to reporting units only with zero or negative carrying amounts was inadequate because to do so allows reporting units with nominally positive carrying amounts to avoid having to consider the same adverse qualitative factors. Another Board member observed that the FASB is evaluating how to respond to input from constituents about the usefulness of goodwill and related impairments in the financial statements of nonpublic entities apart from this Issue. Thus, the Task Force did not support expanding the use of qualitative factors beyond those instances in which the carrying amount of a reporting unit is zero or negative.

BC7. The qualitative factors are consistent with the existing guidance in paragraph 350-20-35-30, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Task Force's decision limits the burden imposed on entities because it does not automatically require Step 2 of the impairment test to be performed but addresses situations in which it is more likely than not that a goodwill impairment exists.

Scope

BC8. The Task Force concluded that the amendments in this Update should apply to all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative.

Effective Date and Transition

BC9. The Task Force decided that the amendments in this Update should be effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, for public entities. For nonpublic entities, the amendments should be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is not permitted for public entities; however, nonpublic entities may early adopt the amendments using the effective date for public entities.

BC10. In reaching that decision, the Task Force discussed the timeliness of education cycles and whether nonpublic entities will become aware of and have time to implement the amendments before their effective date. Some Task Force members noted that while some nonpublic entities may not become aware of the amendments before the effective date, other nonpublic entities may want to adopt at the same time as public entities. Task Force members also observed that many users of nonpublic entity financial statements do not put emphasis on the reported amount of goodwill or related impairments.

BC11. The Task Force decided to require entities with reporting units whose carrying amounts are zero or negative to perform Step 2 of the impairment test upon adoption, if it is more likely than not that a goodwill impairment exists. This will ensure that potential existing impairments are identified upon adoption of the amendments.

BC12. The Task Force decided that the effect of initially adopting the amendments in this Update should be recorded as a cumulative-effect adjustment to beginning retained earnings. The Task Force also concluded that it would be impractical to apply the amendments retrospectively.

Benefits and Costs

BC13. 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 Task Force'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.

BC14. For certain entities, Step 2 of the goodwill impairment test should be performed upon adoption. However, the Task Force concluded that by requiring the Step 2 analysis to be performed only when it is more likely than not that a goodwill impairment exists, costs to implement are minimized. The Task Force concluded that the cost of performing Step 2 for those reporting units is outweighed by the benefit of identifying reporting units whose goodwill is impaired but may have been unrecognized previously because of the diversity in practice resulting from the operation of Step 1 of the existing impairment test.

Amendments to the XBRL Taxonomy

The following elements are proposed additions to the XBRL U.S. GAAP Financial Reporting Taxonomy. They reflect the amendments to the disclosure and presentation requirements of the Accounting Standards Codification and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL exhibit.

Standard Label*	**Definition**	**Codification Reference**
Accounting Standards Update 2010-28 [Member]	Accounting Standards Update 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*	350-10-65-2

*The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.