FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2011-08
September 2011

Intangibles—Goodwill and Other (Topic 350)

Testing Goodwill for Impairment

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

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

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

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

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

Who Is Affected by the Amendments in This Update?

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

What Are the Main Provisions?

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

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

In reaching its conclusion about whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity should consider the extent to which each of the adverse events or circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount. An entity should place more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. Also, an entity should consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity has a recent fair value calculation for a reporting unit, it also should include as a factor in its consideration the difference between the fair value and the carrying amount in deciding whether the first step of the impairment test is necessary.

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

Under the amendments, an entity no longer is permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted by paragraph 350-20-35-29.

The amendments do not change the current guidance for testing other indefinite-lived intangible assets for impairment. However, on September 7, 2011, the FASB chairman added a separate project to the Board's short-term agenda to explore alternative approaches to the manner in which an entity tests other indefinite-lived intangible assets for impairment.

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

When Will the Amendments Be Effective?

The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

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

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

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

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

Amendments to the *FASB Accounting Standards Codification*®

Introduction

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

Amendments to Subtopic 350-20

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

Intangibles—Goodwill and Other—Goodwill

Subsequent Measurement

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

> Recognition and Measurement of an Impairment Loss

> > Qualitative Assessment

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

350-20-35-3B An entity has an unconditional option to bypass the qualitative assessment described in the preceding paragraph for any reporting unit in any period and proceed directly to performing the first step of the goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period.

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

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

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

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

350-20-35-3F The examples included in paragraph 350-20-35-3C(a) through (g) are not all-inclusive, and an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of a reporting unit in determining whether to perform the first step of the goodwill impairment test. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount. An entity should place more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. An entity also should consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity has a recent fair value calculation for a reporting unit, it also should include as a factor in its consideration the difference between the fair value and the carrying amount in reaching its conclusion about whether to perform the first step of the goodwill impairment test.

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

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

> > Step 1

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

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

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

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

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

350-20-35-8A If the carrying amount of a reporting unit is zero or negative, the second step of the impairment test shall be performed to measure the amount of impairment loss, if any, when it is more likely than not (that is, a likelihood of more than 50 percent) that a goodwill impairment exists. In considering whether it is more likely than not that a goodwill impairment exists, an entity shall evaluate, using the process described in paragraphs 350-20-35-3F through 35-3G, whether there are adverse qualitative factors, including the examples of events and circumstances provided in paragraph ~~350-20-35-30(a) through (g)~~ 350-20-35-3C(a) through (g). In evaluating whether it is more likely than not that the goodwill of a reporting unit with a zero or negative carrying amount is impaired, an entity also should take into consideration whether there are significant differences between the carrying amount and the estimated fair value of its assets and liabilities, and the existence of significant unrecognized intangible assets.

> > Step 2

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

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

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

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

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

> > Determining the Implied Fair Value of Goodwill

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

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

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

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

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

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

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

> When to Test Goodwill for Impairment

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

350-20-35-29 Paragraph superseded by Accounting Standards Update 2011-08. ~~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.~~

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

350-20-35-30 Goodwill of a reporting unit shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Additionally, if the carrying amount of a reporting unit is zero or negative, goodwill of that reporting unit shall be tested for impairment on an annual or interim basis if an event occurs or circumstances exist that indicate that it is more likely than not that a goodwill impairment exists. Paragraph 350-20-35-3C(a) through (g) includes examples ~~Examples~~ of such events and circumstances, and paragraph 350-20-35-8A includes additional factors to consider when the carrying amount of a reporting unit is zero or negative. Paragraphs 350-20-35-3F through 35-3G describe the process for making these evaluations. ~~or circumstances include the following:~~

a. Subparagraph superseded by Accounting Standards Update 2011-08. ~~A significant adverse change in legal factors or in the business climate~~
b. Subparagraph superseded by Accounting Standards Update 2011-08. ~~An adverse action or assessment by a regulator~~
c. Subparagraph superseded by Accounting Standards Update 2011-08. ~~Unanticipated competition~~
d. Subparagraph superseded by Accounting Standards Update 2011-08. ~~A loss of key personnel~~
e. Subparagraph superseded by Accounting Standards Update 2011-08. ~~A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of~~
f. Subparagraph superseded by Accounting Standards Update 2011-08. ~~The testing for recoverability under the Impairment or Disposal of Long-~~

~~Lived Assets Subsections of Subtopic 360-10 of a significant asset group within a reporting unit~~

g. Subparagraph superseded by Accounting Standards Update 2011-08. ~~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.~~

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

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

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

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

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

Disclosure

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

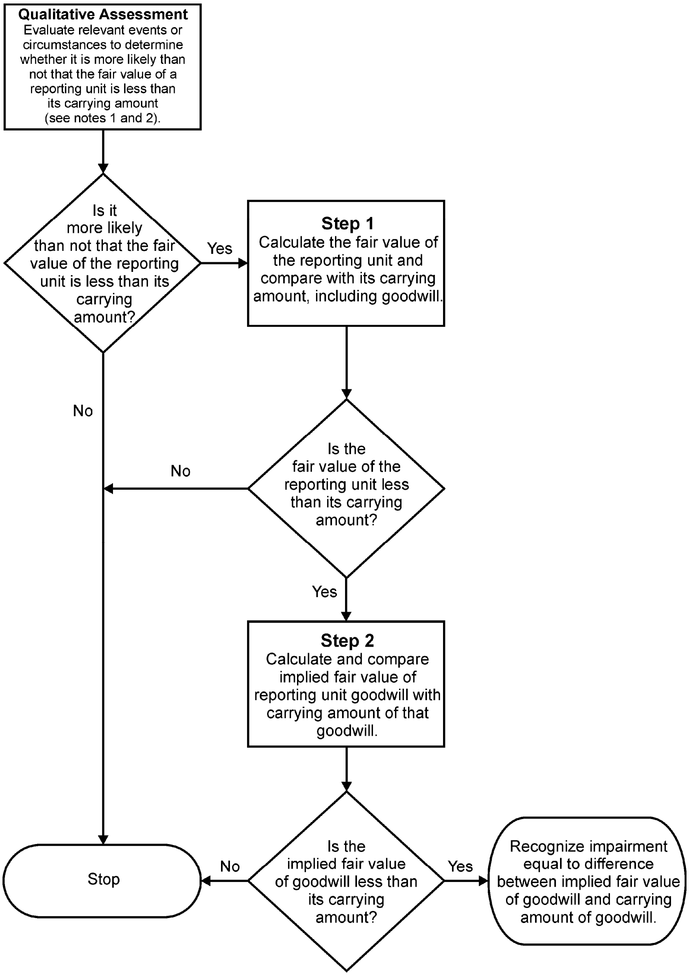
9. Add paragraph 350-20-55-25 and its related heading, with a link to transition paragraph 350-20-65-1, as follows:

Implementation Guidance and Illustrations

> > Example 4: Goodwill Impairment Test

350-20-55-25 The flowchart in this Example illustrates the optional qualitative assessment and the two-step goodwill impairment test described in paragraphs 350-20-35-3A through 35-19.

[For ease of readability, the flowchart is not underlined as new text.]



Notes:

1. An entity has the unconditional option to skip the qualitative assessment and proceed directly to performing Step 1, except in the circumstance where a reporting unit has a carrying amount that is zero or negative.
2. An entity having a reporting unit with a carrying amount that is zero or negative would proceed directly to Step 2 if it determines, as a result of performing its required qualitative assessment, that it is more likely than not that a goodwill impairment exists. To perform Step 2, an entity must calculate the fair value of a reporting unit.

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

> Transition Related to Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

350-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*:

a. The pending content that links to this paragraph shall be applied prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.
b. Earlier application is permitted.
c. Earlier application also is permitted for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if the entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

11. 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**
350-20-35-3	Amended	2011-08	09/15/2011
350-20-35-3A through 35-3G	Added	2011-08	09/15/2011
350-20-35-8A	Amended	2011-08	09/15/2011
350-20-35-29	Superseded	2011-08	09/15/2011
350-20-35-30	Amended	2011-08	09/15/2011

Paragraph Number	Action	Accounting Standards Update	Date
350-20-35-48	Amended	2011-08	09/15/2011
350-20-35-57	Amended	2011-08	09/15/2011
350-20-50-3	Added	2011-08	09/15/2011
350-20-55-25	Added	2011-08	09/15/2011
350-20-65-1	Added	2011-08	09/15/2011

The amendments in this Update were adopted by the affirmative vote of the seven members of the Financial Accounting Standards Board:

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

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this 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 Update permit, but do not require, an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine whether it is necessary to perform the two-step goodwill impairment test required under Topic 350.

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

Background Information

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

BC5. The Board received input from preparers of private company financial statements during its roundtables held to discuss private company issues in October and November 2010 and through other means, indicating concerns about the recurring cost and complexity of calculating the fair value of a reporting unit under the first step of the two-step goodwill impairment test. Because of those concerns, some financial statement preparers recommended that the Board permit an entity to use a qualitative approach for testing goodwill for impairment. Some nonpublic entity stakeholders suggested that the Board reconsider the current recognition and measurement guidance for goodwill and evaluate whether there is a basis for allowing differential accounting guidance for goodwill between nonpublic entities and public entities to address cost-benefit considerations. The Board also solicited input from the Private Company Financial Reporting Committee (PCFRC) and reviewed its comment letter in response to the consensus-for-exposure of EITF Issue No. 10-A, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts,* which was later codified in Accounting Standards Update No. 2010-28. In that letter, the PCFRC recommended that the Board consider allowing all nonpublic entities to use the qualitative approach required by the amendments in Update 2010-28, even when an entity has a reporting unit with a carrying amount greater than zero.

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

BC7. In April 2011, the FASB issued an Exposure Draft of a proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* which was intended to reduce the cost and complexity of testing goodwill for impairment by permitting an entity to perform a qualitative assessment before determining whether to calculate the fair value of a reporting unit under the first step of the two-step goodwill impairment test. The comment period for the Exposure Draft ended on June 6, 2011, and the Board received 93 comment letters. A substantial number of respondents supported the Exposure Draft. A few respondents, primarily large public accounting firms and valuation firms, raised concerns about implementation and auditing issues associated with the proposed qualitative approach. In response to those concerns, in July 2011, the FASB conducted two workshops, which included representatives from large and small public accounting firms, preparers of financial statements, and regulators. During the workshops, some representatives from the large public accounting firms observed that the Exposure Draft was clear and that an entity's qualitative assessment could be audited; however, they noted that in the absence of prescriptive guidance and illustrative examples there may be variation in how some companies evaluate the effect that various events and circumstances may have on a reporting unit's fair value or its carrying amount. Some workshop participants suggested that the Board clarify some implementation aspects of the Exposure Draft, but they did not recommend making significant changes to the Exposure Draft.

BC8. In August 2011, the Board met to discuss the feedback received during the workshops and to redeliberate its previous decisions reached. On the basis that workshop participants observed that the Exposure Draft was operational and would reduce the cost and complexity of goodwill impairment testing for some entities, the Board affirmed its previous decisions and concluded that some of the concerns raised during the workshops could be addressed through educational efforts and by making some minor additions and clarifications to the proposal. The Board completed its redeliberations on August 10, 2011, and voted to issue this Update.

Scope

BC9. The Board decided that the Update should apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements. While the project originally was intended to reduce complexity and costs for nonpublic entities, the Board recognized that, in many cases, preparers of both nonpublic entity and public entity financial statements share similar concerns about reducing the cost and complexity of applying some accounting standards. As a result, the Board directed the staff to perform research and outreach to evaluate whether there are considerations raised by users or preparers that warrant different accounting guidance for goodwill between nonpublic entities and public entities.

BC10. During its deliberations, the Board considered the differential factors about goodwill and goodwill impairment losses that distinguish preparers and users of nonpublic entity financial statements from those of public entity financial statements. The Board understands that many users of both nonpublic entity and public entity financial statements generally exclude goodwill impairment losses from their quantitative analyses and often view the impairment loss as a qualitative indicator about the success of an acquisition. The Board observed that there was no significant difference in user needs or how users of nonpublic entity financial statements and users of public entity financial statements evaluate an entity's goodwill balance or goodwill impairment loss.

BC11. The Board observed that many nonpublic entities and small public entities have fewer internal resources that are qualified to calculate the fair value of a reporting unit and that they incur greater costs to test goodwill for impairment relative to their accounting department budgets compared with large public entities.

BC12. The Board considered other alternative approaches that were intended to reduce the cost and complexity of performing the first step of the goodwill impairment test. As the Board deliberated each of the proposed alternatives, it assessed cost-benefit considerations and whether the alternative would result in further divergence from IFRS. The Board acknowledged that this Update does not advance the convergence of U.S. GAAP and IFRS relating to how an entity tests goodwill for impairment. The Board concluded that such an effort is beyond the scope of this Update and should be done more broadly, by comprehensively addressing these and other differences in impairment guidance between U.S. GAAP and IFRS.

BC13. The Board considered a proposed alternative involving a qualitative approach similar to the approach described in this Update but requiring an entity to periodically calculate fair value to validate its qualitative conclusions. Several stakeholders suggested that a qualitative assessment becomes less effective and less relevant as more time elapses since the date of the last quantitative assessment. While the Board acknowledged these concerns, it decided that the guidance included in the approach described in this Update will adequately address the risk that an entity may omit a goodwill impairment loss or may not record the impairment loss in a timely manner. Also, the Board concluded that requiring an entity to perform the first step of the two-step impairment test, even when the entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, would result in unnecessary costs and would conflict with the benefits of applying a qualitative approach.

BC14. The Board also considered modifying the previous guidance to allow for increased use of the option to carry forward a prior-year fair value calculation but concluded that this approach would not result in meaningful cost reductions. In making this decision, the Board acknowledged that, for various reasons, many public and nonpublic entities have not used the carryforward option previously provided in paragraph 350-20-35-29. One of the criteria required to utilize the carryforward option was that the likelihood of a reporting unit's current-year fair value calculation being less than its carrying amount must be remote. Several preparers stated that they have been unable to satisfy the carryforward criteria primarily because of the remote probability threshold, and many added that, in practice, there is a bias toward not placing reliance on a prior-year fair value calculation. The Board concluded that if the amendments required an entity to perform a fair value calculation to periodically support its qualitative assertions, then the benefits of the proposal would be reduced because some entities would still be required to calculate fair value under the first step of the test, regardless of their conclusions reached in performing the qualitative assessment. The Board concluded that an entity would no longer be permitted to carry forward a reporting unit's fair value calculation from a prior year as previously permitted by paragraph 350-20-35-29. The Board reached that conclusion because if an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity must calculate the current fair value of the reporting unit rather than place reliance on a prior-year fair value calculation. However, the Board concluded that if an entity has a recent fair value calculation for a reporting unit, it should include as a factor in its consideration the difference between the fair value and the carrying amount in determining whether to perform the first step of the impairment test.

BC15. In addition, the Board considered a proposed amortization model, coupled with a qualitative trigger-based impairment model, that had been required under APB Opinion No. 17, *Intangible Assets*. While in the Board's view an amortization approach would reduce the likelihood that goodwill could be impaired by systematically reducing its carrying amount, the Board decided against this alternative for the same reasons cited during the Board's deliberations of FASB Statement No. 142, *Goodwill and Other Intangible Assets*. In that Statement, the Board concluded that the pattern of expense recognition often does not align with the economics of the goodwill recognized because not all goodwill declines in value and because it is difficult to estimate a useful life and an appropriate amortization method for goodwill. While this approach would be consistent with the requirements for entities reporting under IFRS for small and medium-sized entities, it would result in further divergence from other entities reporting under IFRS. In rejecting this proposed alternative, the Board affirmed its tentative decision not to amend goodwill measurement guidance as part of this Update.

BC16. The Board also considered, as an alternative, that an entity derecognize existing goodwill and record any new goodwill as an immediate charge to earnings or as a contra-equity account as of the acquisition date. The Board considered this alternative because many users of financial statements indicated that generally they exclude goodwill and goodwill impairment losses from their quantitative analyses. While the Board recognizes that this approach would have provided the most cost relief because an entity would never need to test goodwill for impairment, the Board determined that this approach does not have strong conceptual merit because goodwill meets the definition of an asset, which should not be written off unless it is deemed to be impaired. Also, the Board concluded that an immediate writeoff would be inconsistent with the economics of the transaction that gave rise to the goodwill, and it would result in further divergence from IFRS. The Board provided for similar treatment in Topic 958, Not-for-Profit Entities; however, that guidance is limited in scope to not-for-profit entities and their acquirees that are predominantly supported by contributions and return on investments given their unique cost-benefit and operational considerations and because they do not share the characteristics of a business. In rejecting this proposed alternative, the Board affirmed its tentative decision not to amend goodwill recognition guidance as part of this Update.

BC17. The Board also considered a proposed alternative that would have required an entity to test goodwill for impairment at a higher level than a reporting unit, such as a reportable segment or the consolidated entity level. The Board decided against that proposed alternative because it would have resulted in a further deviation from IAS 36 because that guidance requires an entity to test goodwill at the level of a cash-generating unit or group of cash-generating units. Additionally, the Board affirmed its conclusions reached during deliberations of Statement 142 that a reporting unit is the appropriate level to test goodwill because it best reflects the way an entity is managed and it commonly is the level at which goodwill is allocated.

BC18. Ultimately, the Board decided that the scope of the Update should be limited to how an entity tests goodwill for impairment, and it should not change the recognition and measurement of goodwill or a goodwill impairment loss. In reaching that decision, the Board determined that by keeping the scope of the Update narrowly focused on when to perform the first step of the impairment test (or the second step of the impairment test in the case of an entity having a reporting unit with a zero or negative carrying amount), it could provide more timely, near-term cost relief to financial statement preparers in response to their concerns. Additionally, the Board wanted to avoid creating any additional areas of divergence from the goodwill recognition and measurement guidance under IFRS.

BC19. Because the Board decided that the scope of the Update should be limited to how an entity tests goodwill for impairment, the amendments in this Update do not affect how an entity tests other indefinite-lived intangible assets for impairment under Topic 350. The Board reached this decision primarily because initially it had not received similar concerns from preparers of financial statements about the cost and complexity of testing other indefinite-lived intangible assets for impairment. Additionally, other indefinite-lived intangible assets have characteristics that differentiate them from goodwill, which the Board determined require consideration that is beyond the scope of this Update. However, based on input received from respondents to the Exposure Draft of this Update, on September 7, 2011, the FASB chairman added a separate project to the Board's short-term agenda to explore alternative approaches to the manner in which an entity tests other indefinite-lived intangible assets for impairment.

BC20. The amendments do not change the guidance about other events affecting the recognition of goodwill that require an entity to calculate the fair value of a reporting unit, such as when an entity reorganizes its reporting structure in a manner that changes the composition of one or more reporting units and when an entity disposes of a portion of a reporting unit that constitutes a business.

General Considerations

BC21. During the staff outreach for this Update, almost all stakeholders recommended that if the Board decided to allow an entity to test goodwill for impairment using a qualitative approach, then the Board should improve the examples of events and circumstances to consider in making that determination. In particular, stakeholders indicated that the previous examples of events and circumstances provided in paragraph 350-20-35-30 were limited and were ineffective in identifying many entity-specific events or circumstances that may suggest goodwill is impaired. Also, the Board acknowledged that based on staff research, most of the examples of events and circumstances listed in the previous guidance did not correspond to the actual reasons disclosed by many public entities that had recognized goodwill impairment losses. The Board also noted that the research indicated that most public entities that reported a goodwill impairment loss disclosed that more than one reason contributed to the loss.

BC22. The Board therefore decided to expand the examples of events and circumstances that an entity should evaluate in assessing whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Board acknowledged that assessing events and circumstances that may affect the comparison of a reporting unit's fair value with its carrying amount may require significant judgment, particularly when evaluating the potential effect of multiple relevant factors. The Board indicated that it does not intend for an entity or its public accounting firm to view the examples as events and circumstances that automatically require an entity to proceed to performing the first step of the impairment test. The Board concluded that an entity should consider the significance of relevant events or circumstances that exist when determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Board concluded that to perform a qualitative assessment in the most effective and efficient manner, an entity should place more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. The Board also decided that an entity should weigh positive and mitigating events and circumstances in determining whether to perform the first step of the impairment test.

BC23. The Board decided to allow an entity an unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the two-step impairment test. An entity may resume performing the qualitative assessment in any subsequent period. In reaching that decision, the Board concluded that an entity is not required to evaluate qualitative factors if it chooses to skip directly to calculating the fair value of a reporting unit under the first step. The Board recognizes that it may be more cost-effective for an entity to reach this conclusion when it believes that assessing qualitative factors is unnecessary because there is a high degree of likelihood that the fair value of a reporting unit is less than its carrying amount. In these circumstances, the Board does not intend for an entity to address the effect of qualitative factors if it decides to perform the first step of the impairment test. The Board decided that an entity may bypass the qualitative assessment in any period for any reporting unit, and it may resume performing the qualitative assessment in any subsequent period. The Board observed that, under existing guidance, an entity may perform its annual goodwill impairment test any time during the fiscal year, provided the test is performed at the same time every year, and that different reporting units may be tested for impairment at different times. The Board concluded that this flexibility should provide sufficient time for an entity to calculate the fair value of a reporting unit if required after performing a qualitative assessment. The Board decided not to permit an entity to skip directly to performing the second step of the impairment test because in order to complete that step, an entity first must calculate fair value under the first step of the test.

BC24. While the expanded examples of events and circumstances in the amendments supersede the previous list of examples of events and circumstances an entity should consider between annual goodwill impairment tests, the Board does not intend to change the practice of how an entity evaluates goodwill impairment on an interim basis. Goodwill should be tested at least annually and evaluated on an interim basis to consider whether any significant changes in events or circumstances have occurred during the intervening period that indicate it is more likely than not that the fair value of a reporting unit has fallen below its carrying amount, or in the case of a reporting unit with a zero or negative carrying amount, whether it is more likely than not that goodwill is impaired. In connection with the annual testing requirement, the Board intends for an entity to make a positive assertion about its conclusion reached and the events and circumstances taken into consideration if it determines that the fair value of a reporting unit is not more likely than not less than its carrying amount.

BC25. Several stakeholders suggested that the Board could further reduce costs to preparers if it amended the second step of the two-step goodwill impairment test, which provides guidance for measuring an impairment loss. This was suggested because the measurement step most often is the more complex and costly of the two-step impairment test because it involves assigning fair values to all of the assets and liabilities in a reporting unit to arrive at an implied fair value of goodwill. While the Board acknowledged the validity of those assertions, it decided not to modify the second step of the impairment test because it did not want to expand the scope of the Update to measurement and because preparers indicated that they were primarily concerned about the recurring costs of performing the first step of the test when they believed the risk of goodwill impairment was unlikely. Preparers did not express concerns to the Board about the cost of measuring an impairment loss when a reporting unit fails the first step of the two-step impairment test.

Effect on Accounting Standards Update No. 2010-28

BC26. The amendments in this Update affect the guidance in 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.* The new examples of events and circumstances supersede the previous examples of the types of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should evaluate in determining whether to perform the second step of the impairment test.

Effective Date

BC27. The Board decided that the amendments in this Update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted.

BC28. The FASB chairman added this project to the Board's short-term agenda to provide cost relief in response to concerns raised by preparers of private company financial statements. The Board decided that requiring all entities to apply the change in fiscal years beginning after December 15, 2011, would be operational because utilizing the qualitative assessment is optional and because the amendments to Topic 350 are narrow in scope. The Board concluded that an entity should have the option to early adopt the new guidance in order to reduce costs and complexity when performing its next goodwill impairment test. The Board also directed the staff to proactively communicate the release of this Update so that nonpublic entities and small public accounting firms will be made aware of the changes. The Board did not defer the effective date for nonpublic entities primarily because most of the amendments in the Update are optional and, in the case of a nonpublic entity having a reporting unit with a zero or negative carrying amount, the amendments in the Update only change the examples of the types of events and circumstances that an entity should consider in evaluating whether it is more likely than not that a goodwill impairment exists.

Benefits and Costs

BC29. 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.

BC30. During its deliberations of Statement 142, the Board concluded that the most effective way to test goodwill for impairment was to require an annual quantitative assessment involving the calculation of a reporting unit's fair value. In reaching that decision, the Board had indicated that it was sensitive to the cost of requiring an entity to quantitatively test goodwill for impairment each year but believed that several factors incorporated into the guidance would limit the costs to be incurred by financial statement preparers. However, as practice evolved following the adoption of Statement 142, many of those factors did not necessarily reduce the costs incurred by many entities.

BC31. For example, previous guidance permitted an entity to carry forward its fair value calculation from one year to the next if certain criteria were met. In its basis for conclusions of Statement 142, the Board had stressed the importance of this carry forward guidance in deciding to require an annual goodwill impairment test that is based on the calculation of fair value. The Board since learned that, in practice, many nonpublic and public entities had not used the option to carry forward a reporting unit's fair value calculation. Instead, those entities had been recalculating the fair value of each reporting unit every year, resulting in additional efforts and costs incurred. Additionally, the Board had believed that most of the costs associated with performing the first step of the impairment test would be incurred in the year of adoption of Statement 142 and then would decrease significantly in future years after an entity assigned its goodwill and net assets to each reporting unit and established its fair value model to complete the test. However, the Board since learned that, in practice, the extent of recurring preparation time and costs, the continued involvement of valuation firms given the complexity of the fair value calculation and volatility of discount rates, and the level of efforts to audit the various inputs and assumptions used in the fair value calculations had not resulted in a significant decrease in costs for many entities since the adoption of Statement 142. Also, the Board had permitted an entity to determine the fair value of a reporting unit using a multiple of earnings or revenue approach to reduce complexity. In practice, reporting entities consider several valuation approaches when measuring the fair value of a reporting unit, as required under current fair value guidance. In many cases, reporting units have unique characteristics that make it very challenging to identify meaningful comparable entities to use in a market approach. As a result, the often more costly income approach is frequently given more, and sometimes exclusive, weight in determining the fair value of a reporting unit.

BC32. The Board concluded that the qualitative approach included in the amendments in this Update adequately addresses the concerns raised by preparers of financial statements because it will, in many cases, reduce the cost and complexity of calculating the fair value of a reporting unit. In reaching its decision, the Board determined that the optional qualitative approach was operational and would likely reduce costs for many entities. The Board acknowledged that in an unfavorable economic environment, many entities likely may determine that they must calculate fair value under the first step of the test because it may be more likely than not that the fair value of a reporting unit is less than its carrying amount. However, the Board concluded that the amendments in this Update will provide greater cost relief to preparers in a more stable or favorable economic environment without affecting the information reported to users of financial statements. The Board also acknowledged that the more time that elapses since an entity last calculated the fair value of a reporting unit, the more difficult it may be to make a conclusion based solely on a qualitative assessment of relevant events and circumstances.

BC33. The Board concluded that an entity utilizing the optional qualitative assessment should apply a more likely than not probability threshold (a likelihood of more than 50 percent) in determining whether the fair value of a reporting unit is less than its carrying amount. Stakeholder input and outreach led the Board to determine that many entities experienced difficulty in satisfying the criteria under previous guidance to carry forward a reporting unit's prior-year fair value calculation because one of those criteria was that the likelihood of a reporting unit's current-year fair value calculation being less than its carrying amount must be remote. Therefore, the Board concluded that requiring an entity to calculate the fair value of a reporting unit when there is a remote likelihood that the fair value of a reporting unit is less than its carrying amount may significantly limit the number of entities that could utilize the qualitative assessment. Alternatively, the Board concluded that requiring an entity to calculate the fair value of a reporting unit when it is probable that the fair value of a reporting unit is less than its carrying amount would increase the risk that an entity may not record an impairment loss in a timely manner.

BC34. The Board recognizes that many public entities reconcile the sum of the fair values of each reporting unit to the entity's market capitalization. The Board acknowledged that the amendments in this Update may result in entities applying more judgment about when and how to perform this evaluation; however, it concluded that this factor should not prohibit an entity from utilizing the qualitative assessment.

BC35. The Board concluded that the qualitative assessment described in this Update will allow an entity to exercise more judgment to reduce the recurring costs of calculating the fair value of a reporting unit. The Board also supported this approach because the approach enhances existing guidance in Topic 350 without creating a fundamental change in U.S. GAAP that would affect the recognition or measurement of goodwill. The Board concluded that including guidance to clarify how it intends an entity to assess the examples of events and circumstances may mitigate concerns raised by some stakeholders about the expectation gap that could exist among some financial statement preparers, auditors, and regulators about an entity's determination that it does not need to complete the first step of the two-step impairment test.

BC36. Currently, paragraph 350-20-50-2(b) requires an entity that recognizes a goodwill impairment loss to disclose the method of determining the fair value of a reporting unit. As part of its joint project with the IASB on fair value measurements, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends Topic 820 to require disclosure of quantitative information about the significant unobservable inputs used in a recurring or nonrecurring fair value measurement that is categorized within Level 3 of the fair value hierarchy. In Update 2011-04, after considering feedback from users of financial statements, the Board decided to clarify that disclosures about significant unobservable inputs should include quantitative information. The purpose of those disclosures is not to give users of financial statements information to replicate an entity's pricing models but rather to provide sufficient information for users to assess whether an entity's views about individual inputs differ from their own and, if so, to decide how to incorporate an entity's fair value measurement in their decisions.

BC37. As a result of outreach performed for this Update, the Board understands that users of both nonpublic entity financial statements and public entity financial statements generally exclude goodwill impairment losses from their quantitative analyses and often view the impairment loss as a qualitative indicator about the success of an acquisition. Therefore, because most fair value calculations for goodwill impairment purposes are categorized within Level 3 of the fair value hierarchy, the Board concluded that the assumptions used to estimate the amount of impairment loss similarly would not provide significant benefits to users and that the cost of providing the disclosures would exceed the benefit of providing them.

Amendments to the XBRL Taxonomy

There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this Update.