FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2017-04
January 2017

Intangibles—Goodwill and Other (Topic 350)

Simplifying the Test for Goodwill Impairment

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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FASB

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CONTENTS

Summary

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

In 2014, the Board amended the *FASB Accounting Standards Codification*® to allow private companies an alternative accounting treatment for subsequently measuring goodwill. The Board determined that those amendments were needed because of concern expressed by private companies and their stakeholders about the cost and complexity of the goodwill impairment test. The FASB added a project to its agenda to determine whether similar amendments should be considered for other entities, including public business entities and not-for-profit entities. The Board subsequently separated the project into two phases. The objective of Phase 1 of the project, which resulted in this Update, is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill.

The Board will evaluate the effectiveness of the guidance in this Update and monitor the International Accounting Standards Board's (IASB's) projects on goodwill and impairment before considering whether additional changes to the subsequent accounting for goodwill, including consideration of permitting or requiring amortization of goodwill and/or additional changes to the impairment testing methodology, are warranted. As a result, the Board moved Phase 2, the project on subsequent accounting for goodwill for public business entities and not-for-profit entities, to the research agenda.

Who Is Affected by the Amendments in This Update?

The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. Private companies that have adopted the private company alternative for goodwill but not the private company alternative to subsume certain intangible assets into goodwill are permitted, but not required, to adopt the amendments in this Update without having to justify preferability of the accounting change if it is adopted on or before the effective date. 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, Accounting Changes and Error Corrections, including justifying why it is preferable to change their accounting policies.

What Are the Main Provisions?

To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination.

Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets.

An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

This Update also includes amendments to the Overview and Background Sections of the Codification (as discussed in Part II of the amendments) as part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics. These changes should not affect the related guidance in these Subtopics.

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

The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because these amendments eliminate Step

2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment.

When Will the Amendments Be Effective?

An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure should be provided in the first annual period and in the interim period within the first annual period when the entity initially adopts the amendments in this Update.

A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.

A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020.

All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021.

Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7, which are related to the subsequent measurement of goodwill, and in paragraphs 8–16, which are related to the Overview and Background Sections of Topic 350. The amendments in this Update are separated into two parts to provide a clear view of each of the subjects on which the Board is focused. 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~~.

Part I—Amendments Related to the Subsequent Measurement of Goodwill

Amendments to Subtopic 350-20

2. Amend paragraphs 350-20-35-1 through 35-3, 350-20-35-3B and 350-20-35-3D through 35-4 and the related heading, 350-20-35-6, 350-20-35-8, 350-20-35-25, 350-20-35-30, 350-20-35-57A, and 350-20-35-73, add paragraphs 350-20-35-8B and 350-20-35-39A, supersede paragraphs 350-20-35-8A through 35-11, and 350-20-35-14 through 35-21 and their related headings, with a link to transition paragraph 350-20-65-3, as follows:

Intangibles—Goodwill and Other—Goodwill

Subsequent Measurement

General

> Overall Accounting for Goodwill

350-20-35-1 Goodwill shall not be amortized. Instead, goodwill shall be tested at least annually 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 of goodwill is the condition that exists when the carrying amount of a reporting unit that includes goodwill exceeds its ~~implied~~ fair value. A goodwill impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. However, an entity shall consider the related income tax effect from any tax deductible goodwill, if applicable, in accordance with paragraph 350-20-35-8B when measuring the goodwill impairment loss.~~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 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~~ quantitative goodwill impairment test discussed in paragraphs 350-20-35-4 through 35-13 ~~35-19~~. If determined to be necessary, the ~~two-step~~ quantitative impairment test 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 quantitative 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 of 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 quantitative ~~first and second steps of the~~ goodwill impairment test is ~~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 quantitative ~~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 quantitative ~~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 quantitative ~~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 quantitative ~~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 quantitative ~~first step of the~~ goodwill impairment test.

> > Quantitative Impairment Test ~~Step 1~~

350-20-35-4 The quantitative ~~first step of the~~ goodwill impairment test, used to identify both the existence of ~~potential~~ impairment and the amount of impairment loss, 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 fair value ~~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 ~~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, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Additionally, an entity shall consider the income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, in accordance with paragraph 350-20-35-8B when measuring the goodwill impairment loss. ~~the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any.~~

350-20-35-8A Paragraph superseded by Accounting Standards Update No. 2017-04.~~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 350-20-35-3C(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.~~

350-20-35-8B <u>If a reporting unit has tax deductible goodwill, recognizing a goodwill impairment loss may cause a change in deferred taxes that results in the carrying amount of the reporting unit immediately exceeding its fair value upon recognition of the loss. In those circumstances, the entity shall calculate the impairment loss and associated deferred tax effect in a manner similar to that used in a business combination in accordance with the guidance in paragraphs 805-740-55-9 through 55-13. The total loss recognized shall not exceed the total amount of goodwill allocated to the reporting unit. See Example 2A in paragraphs 350-20-55-23A through 55-23C for an illustration of the calculation.</u>

~~> > Step 2~~

350-20-35-9 <u>Paragraph superseded by Accounting Standards Update No. 2017-04.</u>~~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 <u>Paragraph superseded by Accounting Standards Update No. 2017-04.</u>~~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 <u>Paragraph superseded by Accounting Standards Update No. 2017-04.</u>~~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 <u>Paragraph superseded by Accounting Standards Update No. 2017-04.</u>~~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 Paragraph superseded by Accounting Standards Update No. 2017-04.~~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 Paragraph superseded by Accounting Standards Update No. 2017-04.~~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 Paragraph superseded by Accounting Standards Update No. 2017-04.~~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 Paragraph superseded by Accounting Standards Update No. 2017-04.~~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 superseded by Accounting Standards Update No. 2017-04.~~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.~~

~~**> > > Deferred Income Tax Considerations**~~

350-20-35-20 Paragraph superseded by Accounting Standards Update No. 2017-04.~~For purposes of determining the implied fair value of goodwill, an entity shall use the income tax bases of a reporting unit's assets and liabilities implicit in the tax structure assumed in its estimation of fair value of the reporting unit in Step 1. That is, an entity shall use its existing income tax bases if the assumed structure used to estimate the fair value of the reporting unit was a nontaxable transaction, and it shall use new income tax bases if the assumed structure was a taxable transaction.~~

350-20-35-21 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Paragraph 805-740-25-6 indicates that a deferred tax liability or asset shall be recognized for differences between the assigned values and the income tax bases of the recognized assets acquired and liabilities assumed in a business combination in accordance with paragraph 805-740-25-3. To the extent present, tax attributes that will be transferred in the assumed tax structure, such as operating loss or tax credit carry forwards, shall be valued consistent with the guidance contained in paragraph 805-740-30-3.~~

> Determining the Fair Value of a Reporting Unit

> > Deferred Income Tax Considerations

350-20-35-25 Before estimating the fair value of a reporting unit, an entity shall determine whether that estimation should be based on an assumption that the reporting unit could be bought or sold in a nontaxable transaction or a taxable transaction. Making that determination is a matter of judgment that depends on the relevant facts and circumstances and must be evaluated carefully on a case-by-case basis (see ~~Examples~~ Example 1 ~~through 2~~ [paragraphs 350-20-55-10 through 55-23]).

350-20-35-26 In making that determination, an entity shall consider all of the following:

a. Whether the assumption is consistent with those that marketplace participants would incorporate into their estimates of fair value
b. The feasibility of the assumed structure
c. Whether the assumed structure results in the highest and best use and would provide maximum value to the seller for the reporting unit, including consideration of related tax implications.

350-20-35-27 In determining the feasibility of a nontaxable transaction, an entity shall consider, among other factors, both of the following:

a. Whether the reporting unit could be sold in a nontaxable transaction
b. Whether there are any income tax laws and regulations or other corporate governance requirements that could limit an entity's ability to treat a sale of the unit as a nontaxable transaction.

> 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 No. 2011-08.

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 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.

a. Subparagraph superseded by Accounting Standards Update No. 2011-08
b. Subparagraph superseded by Accounting Standards Update No. 2011-08
c. Subparagraph superseded by Accounting Standards Update No. 2011-08
d. Subparagraph superseded by Accounting Standards Update No. 2011-08
e. Subparagraph superseded by Accounting Standards Update No. 2011-08
f. Subparagraph superseded by Accounting Standards Update No. 2011-08
g. Subparagraph superseded by Accounting Standards Update No. 2011-08

350-20-35-31 If goodwill and another asset (or asset group) of a 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 (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 was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

350-20-35-32 This requirement applies to all assets that are tested for impairment, not just those included in the scope of the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10.

> Assigning Acquired Assets and Assumed Liabilities to a Reporting Unit

350-20-35-39 For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities shall be assigned to a reporting unit as of the acquisition date if both of the following criteria are met:

a. The asset will be employed in or the liability relates to the operations of a reporting unit.
b. The asset or liability will be considered in determining the fair value of the reporting unit.

Assets or liabilities that an entity considers part of its corporate assets or liabilities shall also be assigned to a reporting unit if both of the preceding criteria are met. Examples of corporate items that may meet those criteria and therefore would be assigned to a reporting unit are environmental liabilities that relate to an existing operating facility of the reporting unit and a pension obligation that would be included in the determination of the fair value of the reporting unit. This provision applies to assets acquired and liabilities assumed in a business combination and to those acquired or assumed individually or with a group of other assets.

<u>**350-20-35-39A** Foreign currency translation adjustments should not be allocated to a reporting unit from an entity's accumulated other comprehensive income. The reporting unit's carrying amount should include only the currently translated balances of the assets and liabilities assigned to the reporting unit.</u>

350-20-35-40 Some assets or liabilities may be employed in or relate to the operations of multiple reporting units. The methodology used to determine the amount of those assets or liabilities to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. For example, assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, could be assigned according to the benefit received by the different reporting units (or based on the relative fair values of the different reporting units). In the case of pension items, for example, a pro rata assignment based on payroll expense might be used. A reasonable allocation method may be very general. For use in making those assignments, the basis for and method of determining the fair value of the acquiree and other related factors (such as the underlying reasons for the acquisition and management's expectations related to dilution, synergies, and other financial measurements) shall be documented at the acquisition date.

> Reorganization of Reporting Structure

> > Disposal of All or a Portion of a Reporting Unit

> > > Goodwill Impairment Testing and Disposal of All or a Portion of a Reporting Unit When the Reporting Unit Is Less Than Wholly Owned

350-20-35-57A If a reporting unit is less than wholly owned, the fair value of the reporting unit as a whole ~~and the implied fair value of goodwill~~ shall be determined in accordance with paragraphs 350-20-35-22 through 35-24, including any portion attributed to the noncontrolling interest ~~the same manner as it would be determined in a business combination accounted for in accordance with Topic 805 or an acquisition accounted for in accordance with Subtopic 958-805~~. Any impairment loss measured in ~~the second step of~~ the goodwill impairment test shall be attributed to the parent and the **noncontrolling interest** on a rational basis. If the reporting unit includes only goodwill attributable to the parent, the goodwill impairment loss would be attributed entirely to the parent. However, if the reporting unit includes goodwill attributable to both the parent and the noncontrolling interest, the goodwill impairment loss shall be attributed to both the parent and the noncontrolling interest.

Accounting Alternative

> Recognition and Measurement of a Goodwill Impairment Loss

> > The Goodwill Impairment Test

350-20-35-73 A goodwill impairment loss, if any, shall be measured as the amount by which the carrying amount of an entity (or a reporting unit) including goodwill exceeds its fair value, limited to the total amount of goodwill of the entity (or allocated to the reporting unit). Additionally, an entity shall consider the income tax effect from any tax deductible goodwill on the carrying amount of the entity (or the reporting unit), if applicable, in accordance with paragraph 350-20-35-8B when measuring the goodwill impairment loss. See Example 2A in paragraph 350-20-55-23A for an illustration. ~~A goodwill impairment loss shall not exceed the entity's (or the reporting unit's) carrying amount of goodwill.~~

3. Amend paragraph 350-20-40-7, with a link to transition paragraph 350-20-65-3, as follows:

Derecognition

> Disposal of All or a Portion of a Reporting Unit

350-20-40-7 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 350-20-35-3A through 35-13 ~~35-19~~ using its adjusted carrying amount.

4. Add paragraph 350-20-50-1A and amend paragraph 350-20-50-2, with a link to transition paragraph 350-20-65-3, as follows:

Disclosure

> Information for Each Period for Which a Statement of Financial Position Is Presented

350-20-50-1 The changes in the carrying amount of **goodwill** during the period shall be disclosed, showing separately (see Example 3 [paragraph 350-20-55-24]):

a. The gross amount and accumulated impairment losses at the beginning of the period
b. Additional goodwill recognized during the period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with paragraph 360-10-45-9
c. Adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraphs 805-740-25-2 through 25-4 and 805-740-45-2
d. Goodwill included in a disposal group classified as held for sale in accordance with paragraph 360-10-45-9 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale
e. Impairment losses recognized during the period in accordance with this Subtopic
f. Net exchange differences arising during the period in accordance with Topic 830
g. Any other changes in the carrying amounts during the period
h. The gross amount and accumulated impairment losses at the end of the period.

Entities that report segment information in accordance with Topic 280 shall provide the above information about goodwill in total and for each reportable segment and shall disclose any significant changes in the allocation of goodwill by reportable segment. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, that unallocated amount and the reasons for not allocating that amount shall be disclosed.

<u>**350-20-50-1A** Entities that have one or more reporting units with zero or negative carrying amounts of net assets shall disclose those reporting units with allocated goodwill and the amount of goodwill allocated to each and in which reportable segment the reporting unit is included.</u>

> **Goodwill Impairment Loss**

350-20-50-2 For each goodwill impairment loss recognized, all of the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:

a. A description of the facts and circumstances leading to the impairment
b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses or nonprofit activities, a present value or other valuation technique, or a combination thereof)
c. Subparagraph superseded by Accounting Standards Update No. 2017-04.~~If a recognized impairment loss is an estimate that has not yet been finalized (see paragraphs 350-20-35-18 through 35-19), that fact and the reasons therefore and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss.~~

5. Amend paragraphs 350-20-55-12 through 55-16, the heading preceding paragraph 350-20-55-17, and 350-20-55-19 through 55-26 and add the heading preceding paragraph 350-20-55-10 and paragraphs 350-20-55-23A through 55-23D and their related heading, with a link to transition paragraph 350-20-65-3, as follows:

Implementation Guidance and Illustrations

General

> **Illustrations**

> > **Example 1: Impairment Test When either a Taxable or Nontaxable Transaction Is Feasible**

> > > **Case A—Effect of a Nontaxable Transaction on the Impairment Test of Goodwill**

350-20-55-10 This Example illustrates the effect of a nontaxable transaction on the impairment test of goodwill. The Example may not necessarily be indicative of actual income tax liabilities that would arise in the sale of a reporting unit or the relationship of those liabilities in a taxable versus nontaxable structure.

350-20-55-11 Entity A is performing a goodwill impairment test relative to Reporting Unit at December 31, 20X2. Reporting Unit has the following assets and liabilities:

a. Net assets (excluding goodwill and deferred income taxes) of $60 with a tax basis of $35
b. Goodwill of $40
c. Net deferred tax liabilities of $10.

350-20-55-12 Entity A believes that it is feasible to sell Reporting Unit in either a nontaxable or a taxable transaction. Entity A could sell Reporting Unit for $80 in a nontaxable transaction or $90 in a taxable transaction. If Reporting Unit were sold in a nontaxable transaction, Entity A would have a current tax payable resulting from the sale of $10. Assuming a tax rate of 40 percent, if Reporting Unit were sold in a taxable transaction, Entity A would have a current tax payable resulting from the sale of $22 ([$90 - 35] × 40%). ~~The fair value of the net tangible and identifiable **intangible assets** in Reporting Unit is $65, before consideration of deferred income taxes.~~

350-20-55-13 In ~~Step 1 of~~ the quantitative impairment test in paragraphs 350-20-35-4 through 35-8, Entity A concludes that market participants would act in their economic best interest by selling Reporting Unit in a nontaxable transaction based on the following evaluation of its expected after-tax proceeds.

	Nontaxable	Taxable
Gross proceeds (fair value)	$ 80	$ 90
Less: taxes arising from transaction	(10)	(22)
Value to Entity A	$ 70	$ 68

350-20-55-14 In ~~Step 1 of~~ the quantitative impairment test, Entity A would determine the carrying amount ~~value~~ of Reporting Unit as follows.

Net assets	$60
Goodwill	40
Deferred taxes	(10)
Carrying value	$90

350-20-55-15 The goodwill allocated to Reporting Unit ~~fails Step 1 of the goodwill impairment test as its~~ is determined to be impaired because Reporting Unit's carrying value ($90) exceeds its fair value ($80 assuming a nontaxable transaction). ~~Entity A must perform Step 2 of the goodwill impairment test in paragraphs 350-20-35-9 through 35-13. Because Entity A assumed that Reporting Unit would be sold in a nontaxable transaction, the analysis in Step 2 is as follows.~~

	~~Assumed Allocation of Fair Value (Purchase Price)~~
~~Fair value of Reporting Unit~~	~~$ 80~~
~~Less fair value of net tangible and identifiable intangible assets~~	~~(65)~~
~~Plus deferred tax liabilities ($65 - $35 = $30 x 40% = $12)~~	~~12~~
~~Implied fair value of goodwill~~	~~$ 27~~

350-20-55-16 Reporting Unit must recognize ~~a~~ the full goodwill impairment loss of $10 ~~$13~~ (determined as the excess of the carrying amount ~~value~~ of Reporting Unit ~~goodwill~~ of $90 ~~$40~~ compared with ~~to~~ its ~~implied~~ fair value of ~~$27)~~ $80) because the $10 impairment loss does not exceed the $40 carrying amount of the goodwill allocated to Reporting Unit.

~~**> > Example 2: Impairment Test When Either a Taxable or Nontaxable Transaction Is Feasible**~~

> > > Case B—Effect of a Taxable Transaction on the Impairment Test of Goodwill

350-20-55-17 This Example illustrates the effect of a taxable transaction on the impairment test of goodwill. The Example may not necessarily be indicative of actual income tax liabilities that would arise in the sale of a reporting unit or the relationship of those liabilities in a taxable versus nontaxable structure.

350-20-55-18 Entity A is performing a goodwill impairment test relative to Reporting Unit at December 31, 20X2. Reporting Unit has the following assets and liabilities:

a. Net assets (excluding goodwill and deferred income taxes) of $60 with a tax basis of $35

b. Goodwill of $40
c. Net deferred tax liabilities of $10.

350-20-55-19 Entity A believes that it is feasible to sell Reporting Unit in either a nontaxable or a taxable transaction. Entity A could sell Reporting Unit for $65 in a nontaxable transaction or $80 in a taxable transaction. If Reporting Unit were sold in a nontaxable transaction, Entity A would have a current tax payable resulting from the sale of $4. Assuming a tax rate of 40 percent, if Reporting Unit were sold in a taxable transaction, Entity A would have a current tax payable resulting from the sale of $18 ([$80 - 35] × 40%). ~~The fair value of the net tangible and identifiable intangible assets in Reporting Unit is $65, before consideration of deferred income taxes.~~

350-20-55-20 In ~~Step 1 of~~ the quantitative impairment test in paragraphs 350-20-35-4 through 35-8, Entity A concludes that market participants would act in their economic best interest by selling Reporting Unit in a taxable transaction. This conclusion was based on the following.

	Nontaxable Transaction		Taxable Transaction	
Gross proceeds (fair value)	$	65	$	80
Less: taxes arising from transaction		(4)		(18)
Value to Entity A	$	61	$	62

350-20-55-21 Deferred taxes related to the net assets of Reporting Unit should be included in the carrying value of Reporting Unit. Accordingly, in ~~Step 1 of~~ the quantitative impairment test Entity A would determine the carrying amount ~~value~~ of Reporting Unit as follows.

Net assets	$ 60
Goodwill	40
Deferred income taxes	(10)
Carrying value	$ 90

350-20-55-22 The goodwill allocated to Reporting Unit is determined to be impaired ~~fails Step 1~~ because ~~its~~ Reporting Unit's carrying amount ~~value~~ ($90) exceeds its fair value ($80). ~~($80); therefore, Entity A must perform Step 2 of the goodwill impairment test (see paragraphs 350-20-35-9 through 35-13). Because Entity A assumed that Reporting Unit would be sold in a taxable transaction, the calculation of the implied fair value of goodwill in Step 2 of the impairment analysis is as follows.~~

~~Fair value of Reporting Unit~~	~~$ 80~~
~~Less:~~	
~~Fair value of net tangible and intangible assets~~	~~(65)~~
~~Deferred income taxes~~	~~-~~
~~Implied fair value of goodwill~~	~~$ 15~~

350-20-55-23 Reporting Unit must recognize ~~a~~ the full goodwill impairment loss of $10 ~~$25~~ (determined as the excess of the carrying amount ~~value~~ of Reporting Unit ~~goodwill~~ of $90 ~~$40~~ compared with ~~to~~ its ~~implied~~ fair value of ~~$15)~~ $80) because the $10 impairment loss does not exceed the $40 carrying amount of the goodwill allocated to Reporting Unit.

> > Example 2A: Impairment Test When Goodwill Is Tax Deductible

350-20-55-23A Goodwill is deductible for tax purposes for some business combinations in certain jurisdictions. In those jurisdictions, a deferred tax asset or deferred tax liability is recorded upon acquisition on the basis of the difference between the book basis and the tax basis of goodwill. When goodwill of a reporting unit is tax deductible, the impairment of goodwill creates a cycle of impairment because the decrease in the book value of goodwill increases the deferred tax asset (or decreases the deferred tax liability) such that the carrying amount of the reporting unit increases. However, there is no corresponding increase in the fair value of the reporting unit and this could trigger another impairment test.

350-20-55-23B This Example illustrates the use of a simultaneous equation when tax deductible goodwill is present to account for the increase in the carrying amount from the deferred tax benefit.

> Beta Entity has goodwill from an acquisition in Reporting Unit X. All of the goodwill allocated to Reporting Unit X is tax deductible. On October 1, 20X6 (the date of the annual impairment test for the reporting unit), Reporting Unit X had a book value of goodwill of $400, which is all tax deductible, deferred tax assets of $200 relating to the tax-deductible goodwill, and book value of other net assets of $400. Reporting Unit X is subject to a 40 percent income tax rate. Beta Entity estimated the fair value of Reporting Unit X at $900.

[For ease of readability, the new table is not underlined.]

	Carrying Amount	Fair Value	Preliminary Impairment	Preliminary Deferred Tax Adjustment	Carrying Amount after Preliminary Impairment
Goodwill	$ 400	$ -	$ (100)	$ -	$ 300
Deferred taxes	200	-	-	40	240
Other net assets	400	-	-	-	400
Total	$ 1,000	$ 900	$ (100)	$ 40	$ 940

350-20-55-23C In the Example above, the carrying amount of Reporting Unit X immediately after the impairment charge exceeds its fair value by the amount of the increase in the deferred tax asset calculated as 40 percent of the impairment charge. To address the circular nature of the carrying amount exceeding the fair value, instead of continuing to calculate impairment on the excess of carrying amount over fair value until those amounts are equal, Beta Entity would apply the simultaneous equation demonstrated in paragraphs 805-740-55-9 through 55-13 to Reporting Unit X, as follows.

[For ease of readability, the new table is not underlined.]

Simultaneous equation: [tax rate/(1 – tax rate)] × (preliminary temporary difference) = deferred tax asset

Equation for this example: 40%/(1 – 40%) × 100 = 67

	Carrying Amount	Fair Value	Preliminary Impairment	Adjustment for Equation	Carrying Amount after Impairment
Goodwill	$ 400	$ -	$ (100)	$ (67)	$ 233
Deferred taxes	200	-	-	67	267
Other net assets	400	-	-	-	400
Total	$ 1,000	$ 900	$ (100)	$ 0	$ 900

350-20-55-23D The company would report a $167 goodwill impairment charge partially offset by a $67 deferred tax benefit recognized in the income tax line. If the impairment charge calculated using the equation exceeds the total goodwill allocated to a reporting unit, the total impairment charge would be limited to the goodwill amount.

> > Example 3: Illustration of Disclosures

350-20-55-24 In accordance with paragraphs 350-20-50-1 through 50-2, the following disclosures would be made by Theta Entity in its December 31, 20X3 financial statements relating to goodwill.

Theta Entity has ~~two~~ three reporting units with goodwill~~—Technology~~ Software, Electronics, and Communications~~—which also are~~ and two reportable segments—Technology and Communications. The Electronics reporting unit has a negative carrying amount.

Note C: Goodwill

The changes in the carrying amount of goodwill for the year ended December 31, 20X3, are as follows.

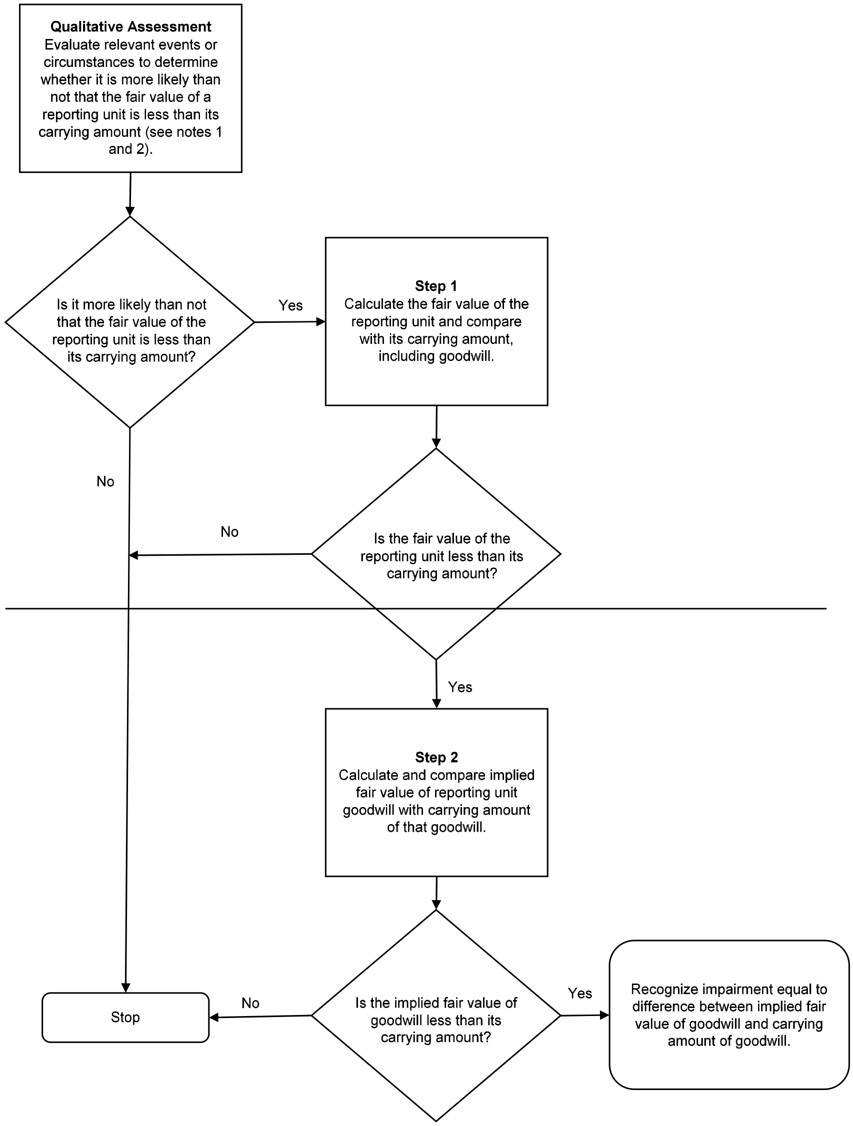
($000s)	Technology Segment	Communications Segment	Total
Balance as of January 1, 20X3			
Goodwill	$ 1,413	$ 1,104	$ 2,517
Accumulated impairment losses	-	(200)	(200)
	~~1,143~~ 1,413	904	2,317
Goodwill acquired during year	189	115	304
Impairment losses	-	(46)	(46)
Goodwill written off related to sale of business unit	(484)	-	(484)
Balance as of December 31, 20X3			
Goodwill	1,118	1,219	2,337
Accumulated impairment losses	-	(246)	(246)
	$ 1,118	$ 973	$ 2,091

The Communications segment is tested for impairment in the third quarter, after the annual forecasting process. Due to an increase in competition in the Texas and Louisiana cable industry, operating profits and cash flows were lower than expected in the fourth quarter of 20X2 and the first and second quarters of 20X3. Based on that trend, the earnings forecast for the next five years was revised. In September 20X3, a goodwill impairment loss of $46 was recognized in the Communications reporting unit. The fair value of that reporting unit was estimated using the expected present value of future cash flows.

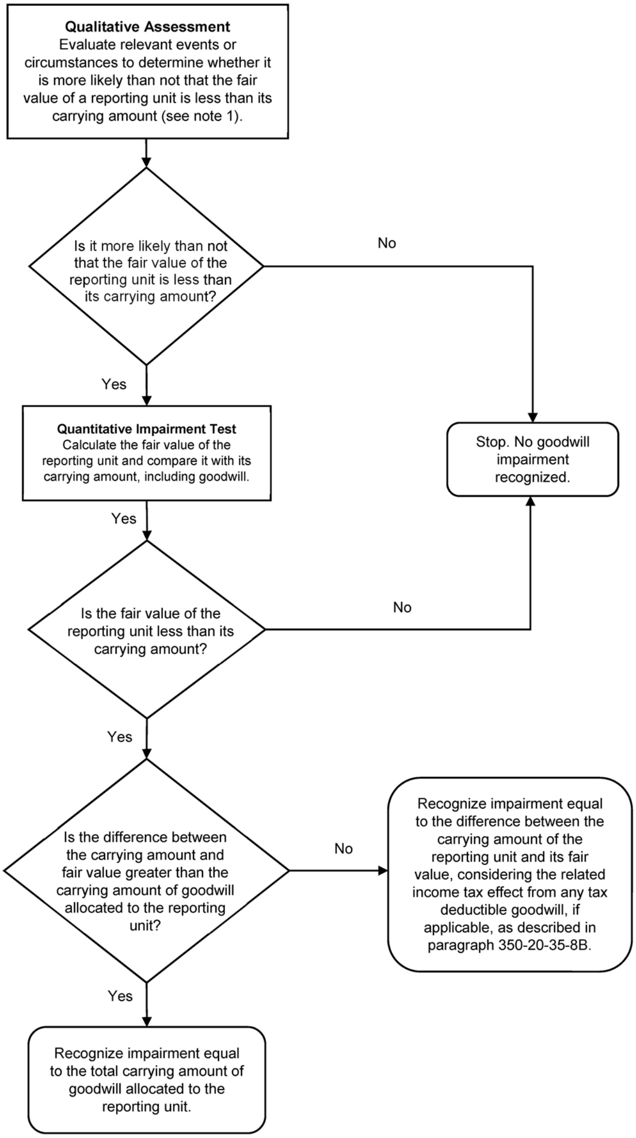
The Electronics reporting unit to which $498 of goodwill is allocated had a negative carrying amount on December 31, 20X3, and 20X2. This reporting unit is part of the Technology segment.

> > Example 4: Goodwill Impairment Test

350-20-55-25 The flowchart in this Example illustrates the optional qualitative assessment and the quantitative ~~two-step~~ goodwill impairment test described in paragraphs 350-20-35-3A through 35-13 ~~35-19~~.



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



Note:~~Notes:~~

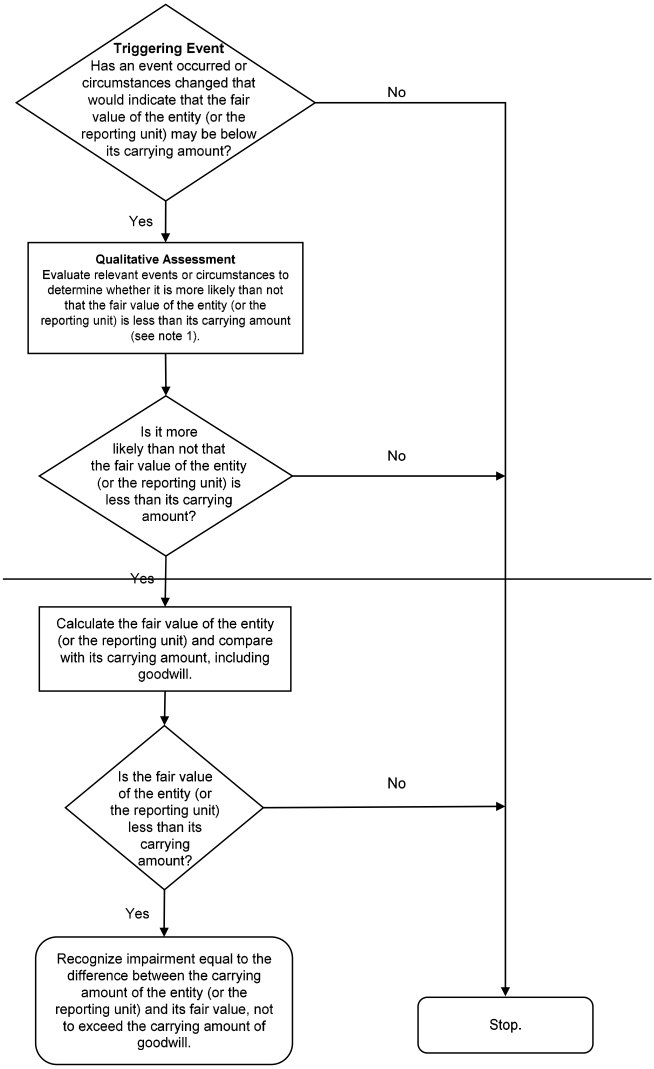
1. An entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the reporting unit and comparing that value with its carrying amount, including goodwill ~~performing Step 1, except in the circumstance where a reporting unit has a carrying 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.~~

Accounting Alternative

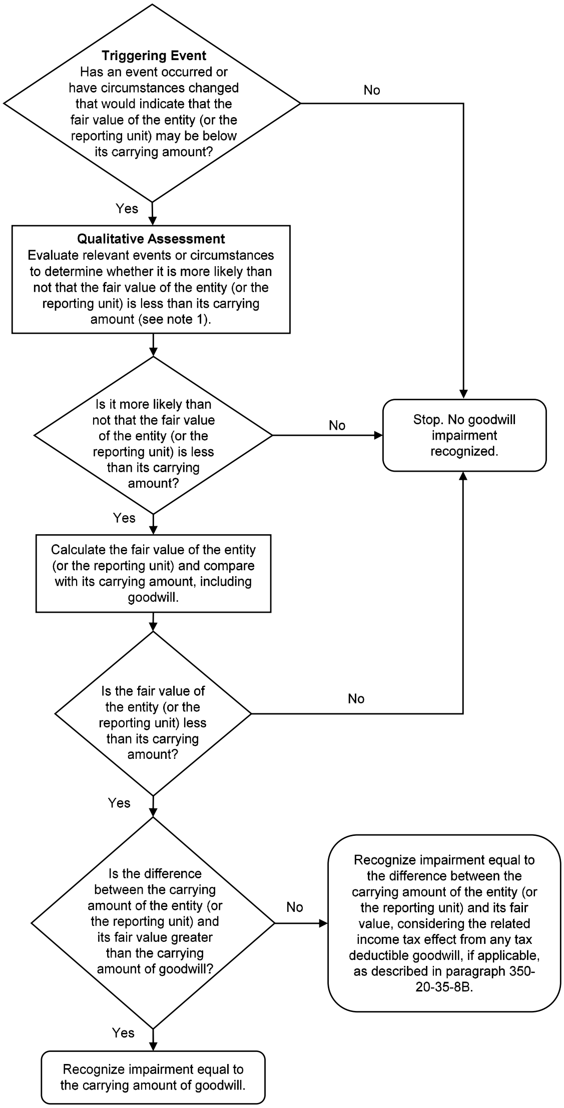
> Implementation Guidance

350-20-55-26 The following flowchart provides an overview of the accounting alternative for entities within the scope of paragraph 350-20-15-4.



Triggering Event
Has an event occurred or circumstances changed that would indicate that the fair value of the entity (or the reporting unit) may be below its carrying amount?
No
Yes
Qualitative Assessment
Evaluate relevant events or circumstances to determine whether it is more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount (see note 1).
Is it more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount?
No
Yes
Calculate the fair value of the entity (or the reporting unit) and compare with its carrying amount, including goodwill.
Is the fair value of the entity (or the reporting unit) less than its carrying amount?
No
Yes
Recognize impairment equal to the difference between the carrying amount of the entity (or the reporting unit) and its fair value, not to exceed the carrying amount of goodwill.
Stop.

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



Note 1: An entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the entity (or the reporting unit) and comparing that value with its carrying amount, including goodwill.

6. Add paragraph 350-20-65-3 and its related heading, as follows:

> Transition Related to Accounting Standards Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

350-20-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment:*

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**
   2. December 15, 2020, for public business entities that are not SEC filers
   3. December 15, 2021, for all other entities, including not-for-profit entities.
b. Early adoption is permitted for interim and annual goodwill impairment tests with a measurement date 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. Private companies that have adopted the private company accounting alternative for the subsequent measurement of goodwill 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.

Amendments to Subtopic 350-30

7. Amend paragraph 350-30-35-26, with a link to a transition paragraph 350-20-65-3, as follows:

Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill

Subsequent Measurement

> Unit of Accounting for Purposes of Testing for Impairment of Intangible Assets Not Subject to Amortization

350-30-35-26 All of the following shall be included in the determination of the unit of accounting used to test indefinite-lived intangible assets for impairment:

a. The unit of accounting shall include only indefinite-lived intangible assets—those assets cannot be tested in combination with **goodwill** or with a finite-lived asset.
b. The unit of accounting cannot represent a group of indefinite-lived intangible assets that collectively constitute a business or a **nonprofit activity**.
c. A unit of accounting may include indefinite-lived intangible assets recorded in the separate financial statements of consolidated subsidiaries. As a result, an impairment loss recognized in the consolidated financial statements may differ from the sum of the impairment losses (if any) recognized in the separate financial statements of those subsidiaries.
d. Subparagraph superseded by Accounting Standards Update No. 2017-04.~~If the unit of accounting used to test impairment of indefinite-lived intangible assets is contained in a single **reporting unit**, the same unit of accounting and associated fair value shall be used for purposes of measuring a goodwill impairment loss in accordance with paragraphs 350-20-35-9 through 35-18~~.

Part II—Amendments Related to the Overview and Background Sections of Topic 350

8. As part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics, the amendments in this Update include amendments to the Overview and Background Sections of Subtopics 350-10, 350-20, 350-30, and 350-40, which are related to goodwill, intangible assets, certain software costs, and website development costs. These

amendments are considered to be nonsubstantial changes and do not affect the related guidance in those Subtopics; therefore, they are not linked to a transition paragraph.

Amendments to Subtopic 350-10

9. Amend paragraphs 350-10-05-1 and 350-10-05-3, supersede paragraphs 350-10-05-2 and 350-10-05-4 through 05-7, and add paragraph 350-10-05-3A, with no link to a transition paragraph, as follows:

Intangibles—Goodwill and Other—Overall

Overview and Background

350-10-05-1 The Intangibles—Goodwill and Other Topic provides guidance on financial accounting and reporting related to **goodwill** and other ~~intangibles,~~ **intangible assets**, including the subsequent measurement of goodwill and intangible assets. It does not include guidance on the accounting at acquisition for goodwill and intangible assets acquired in a business combination or in an **acquisition by a not-for-profit entity**. ~~other than the accounting at acquisition for goodwill and other intangibles acquired in a business combination or an **acquisition by a not-for-profit entity**. That acquisition guidance is provided in the following Subtopics:~~

a. Subparagraph superseded by Accounting Standards Update No. 2017-04.~~Subtopic 805-20 provides acquisition guidance for intangible assets acquired in a business combination or an acquisition by a not-for-profit entity.~~
b. Subparagraph superseded by Accounting Standards Update No. 2017-04.~~Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination.~~
c. Subparagraph superseded by Accounting Standards Update No. 2017-04.~~Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an acquisition by a not-for-profit entity.~~ **[Content amended and moved to paragraph 350-10-05-3A]**

350-10-05-2 Paragraph superseded by Accounting Standards Update No. 2017-04.~~The Overall Subtopic provides an overview of the other Subtopics in this Topic and the overall scope for this Topic. The other Subtopics provide the accounting and reporting standards.~~

350-10-05-3 This Topic includes the following Subtopics:

a. Overall. ~~Overall~~
b. Goodwill—Subtopic 350-20 provides guidance on the measurement of goodwill after acquisition, derecognition of some or all of goodwill

allocated to a reporting unit, other presentation matters, and disclosures. ~~Goodwill~~

c. General Intangibles Other Than ~~Goodwill~~ Goodwill—Subtopic 350-30 provides guidance on the initial recognition and measurement of intangible assets other than goodwill that are either:
   1. Acquired individually or with a group of assets in a transaction that is not a business combination or an acquisition by a not-for-profit entity
   2. Internally generated.
d. Internal-Use ~~Software~~ Software—Subtopic 350-40 provides guidance on the accounting for the cost of computer software that is developed or obtained for internal use.
e. Website Development ~~Costs~~ Costs—Subtopic 350-50 provides guidance on whether to capitalize or expense costs incurred to develop a website.

350-10-05-3A Guidance for the financial accounting and reporting at acquisition of goodwill and other intangible assets acquired in a business combination or acquired in an acquisition by a not-for-profit entity is provided in the following Subtopics:

a. Subtopic 805-20 provides acquisition guidance for intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity.
b. Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination.
c. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an acquisition by a not-for-profit entity. **[Content amended as shown and moved from paragraph 350-10-05-1]**

350-10-05-4 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Subtopic 350-20 addresses financial accounting and reporting for goodwill subsequent to its acquisition.~~

350-10-05-5 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Subtopic 350-30 addresses financial accounting and reporting for **intangible assets** acquired individually or with a group of other assets. However, it does not discuss the recognition and initial measurement of intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity. That acquisition guidance is provided in Subtopic 805-20. Subtopic 350-30 also addresses the financial accounting and reporting for intangible assets after acquisition, including intangible assets acquired in a business combination or an acquisition by a not-for-profit entity.~~

350-10-05-6 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Subtopic 350-40 provides guidance on accounting for the costs of computer software developed or obtained for internal use and provides guidance for determining whether computer software is for internal use.~~

350-10-05-7 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Subtopic 350-50 provides guidance on accounting for costs incurred to develop a website.~~

Amendments to Subtopic 350-20

10. Supersede paragraph 350-20-05-3, add paragraphs 350-20-05-4A through 05-4B and 350-20-05-5A, and amend paragraph 350-20-05-5, with no link to a transition paragraph, as follows:

Intangibles—Goodwill and Other—Goodwill

Overview and Background

General

350-20-05-1 This Subtopic addresses financial accounting and reporting for **goodwill** subsequent to its acquisition and for the cost of internally developing goodwill.

350-20-05-2 Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an **acquisition by a not-for-profit entity**.

350-20-05-3 Paragraph superseded by Accounting Standards Update No. 2017-04.~~While goodwill is an **intangible asset**, the term intangible asset is used in this Subtopic to refer to an intangible asset other than goodwill.~~

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

a. General
b. Accounting 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 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.

350-20-05-4B This Subtopic also includes guidance on the following:

a. How an entity should derecognize goodwill when it disposes of all or a portion of a reporting unit

b. How goodwill should be presented in the balance sheet
c. How impairment losses should be presented in the income statement
d. What disclosures about goodwill and related impairment considerations should be made in the notes to the financial statements.

Accounting Alternative

350-20-05-5 The Accounting Alternative Subsections of this Subtopic provide guidance for an entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for goodwill. If elected, the accounting alternative allows an eligible entity to amortize goodwill and test that goodwill for impairment upon a triggering event.

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

a. Scope and Scope Exceptions—paragraphs 350-20-15-4 through 15-5
b. Subsequent Measurement—paragraphs 350-20-35-62 through 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 350-20-55-26.

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 Alternative Subsections of this Subtopic.

11. Amend paragraph 350-20-15-3, with no link to a transition paragraph, as follows:

Scope and Scope Exceptions

> Transactions

350-20-15-3 ~~As indicated in paragraph 350-20-05-3, while~~ Although goodwill is an intangible asset, the term *intangible asset* is used in this Subtopic to refer to an intangible asset other than goodwill.

Amendments to Subtopic 350-30

12. Amend paragraph 350-30-05-1 and add paragraphs 350-30-05-2 through 05-5, with no link to a transition paragraph, as follows:

Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill

Overview and Background

350-30-05-1 This Subtopic addresses financial accounting and reporting for **intangible assets** (other than **goodwill**) acquired individually or with a group of other assets and for the cost of developing, maintaining, or restoring internally generated intangible assets. However, it does not discuss the recognition and initial measurement of intangible assets acquired in a business combination or in an **acquisition by a not-for-profit entity**. ~~That acquisition guidance is provided in Subtopics 805-20 and 958-805.~~ This Subtopic also addresses financial accounting and reporting for intangible assets after their acquisition, including intangible assets acquired in a business combination or an acquisition by a not-for-profit entity.

350-30-05-2 Guidance on the initial recognition and measurement of intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity is provided in Subtopics 805-20 and 958-805, respectively.

350-30-05-3 Intangible assets acquired individually or with a group of other assets should be recognized as assets in accordance with Section 350-20-25. Costs of developing internally generated intangible assets should be accounted for in accordance with paragraph 350-30-25-3.

350-30-05-4 The accounting for an intangible asset after acquisition depends on its useful life. If that life is indefinite, the intangible asset should not be amortized but should be tested for impairment at least annually in accordance with paragraphs 350-30-35-15 through 35-20. If that life is finite, the intangible asset should be amortized in accordance with paragraphs 350-30-35-6 through 35-13 and tested for impairment under the guidance for long-lived assets in Subtopic 360-10.

350-30-05-5 This Subtopic also includes guidance on the presentation of intangible assets in the balance sheet, presentation of amortization expense and impairment losses for intangible assets in the income statement, and disclosure of information on intangible assets in the notes to financial statements.

Amendments to Subtopic 350-40

13. Amend paragraph 350-40-05-1, add paragraphs 350-40-05-1A through 05-1B, and supersede paragraphs 350-40-05-2 through 05-5 and 350-40-05-8 through 05-9, with no link to a transition paragraph, as follows:

Intangibles—Goodwill and Other—Internal-Use Software

Overview and Background

350-40-05-1 This Subtopic provides guidance on accounting for the cost of computer software developed or obtained for internal use and for determining whether the software is for internal use. Certain costs incurred for computer software developed or obtained for internal use should be capitalized depending on the nature of the costs and the project stage during which they were incurred in accordance with the guidance in Section 350-40-25. Computer software to be sold, leased, or otherwise marketed externally is not considered to be for internal use.

350-40-05-1A Section 350-40-30 includes guidance on the types of costs that should be capitalized, including costs for the purchase of internal-use software in a multiple element transaction.

350-40-05-1B Section 350-40-35 includes guidance on the following:

a. How to test the internal-use software for impairment
b. How to amortize the asset
c. How to account for software that previously was considered for internal use, but subsequently was marketed.

350-40-05-2 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Internal-use software has both of the following characteristics:~~

~~a. The software is acquired, internally developed, or modified solely to meet the entity's internal needs.~~
~~b. During the software's development or modification, no substantive plan exists or is being developed to market the software externally.~~ **[Content moved to paragraph 350-40-15-2A]**

350-40-05-3 Paragraph superseded by Accounting Standards Update No. 2017-04.~~A substantive plan to market software externally could include the selection of a marketing channel or channels with identified promotional, delivery, billing, and support activities. To be considered a substantive plan, implementation of the plan should be reasonably possible. Arrangements providing for the joint development of software for mutual internal use (for example, cost-sharing arrangements) and routine market feasibility studies are not substantive plans to market software for purposes of this Subtopic. Both characteristics in the preceding paragraph must be met for software to be considered for internal use.~~ **[Content amended and moved to paragraph 350-40-15-2B]**

350-40-05-4 Paragraph superseded by Accounting Standards Update No. 2017-04.~~An entity's past practices related to selling software may help determine whether the software is for internal use or is subject to a plan to be marketed externally. For example, an entity in the business of selling computer software often both uses and sells its own software products. Such a past practice of both using and selling computer software creates a rebuttable presumption that any software developed by that entity is intended for sale, lease, or other marketing, and thus is subject to the guidance in Subtopic 985-20.~~ **[Content amended and moved to paragraph 350-40-15-2C]**

350-40-05-5 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Computer software to be sold, leased, or otherwise marketed includes software that is part of a product or process to be sold to a customer and shall be accounted for under Subtopic 985-20. For example, software designed for and embedded in a semiconductor chip is included in the scope of that Subtopic because it is an integral part of the product. By contrast, software for internal use, though it may be used in developing a product, is not part of or included in the actual product or service sold. If software is used by the vendor in the production of the product or providing the service but the customer does not acquire the software or the future right to use it, the software is covered by this Subtopic. For example, for a communications entity selling telephone services, software included in a telephone switch is part of the internal equipment used to deliver a service but is not part of the product or service actually being acquired or received by the customer.~~ **[Content amended and moved to paragraph 350-40-15-5]**

350-40-05-6 Paragraphs 350-40-55-1 through 55-2 provide examples of when computer software is and is not for internal use.

350-40-05-7 Paragraph 350-40-55-3 illustrates the various stages and related processes of computer software development.

350-40-05-8 Paragraph superseded by Accounting Standards Update No. 2017-04.~~The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system. Data conversion often occurs during the application development stage.~~ **[Content amended and moved to paragraph 350-40-25-5]**

350-40-05-9 Paragraph superseded by Accounting Standards Update No. 2017-04.~~Upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications.~~ **[Content moved to paragraph 350-40-25-7]**

14. Add paragraphs 350-40-15-2A through 15-2C and amend paragraph 350-40-15-5, with no link to a transition paragraph, as follows:

Scope and Scope Exceptions

> Transactions

350-40-15-2 The guidance in this Subtopic applies to the following transactions and activities:

a. Internal-use software

b. The proceeds of computer software developed or obtained for internal use that is marketed
c. New internal-use software developed or obtained that replaces previously existing internal-use software
d. Computer software that consists of more than one component or module. For example, an entity may develop an accounting software system containing three elements: a general ledger, an accounts payable subledger, and an accounts receivable subledger. In this example, each element might be viewed as a component or module of the entire accounting software system. The guidance in this Subtopic shall be applied to individual components or modules.

350-40-15-2A Internal-use software has both of the following characteristics:

a. The software is acquired, internally developed, or modified solely to meet the entity's internal needs.
b. During the software's development or modification, no substantive plan exists or is being developed to market the software externally. **[Content moved from paragraph 350-40-05-2]**

350-40-15-2B A substantive plan to market software externally could include the selection of a marketing channel or channels with identified promotional, delivery, billing, and support activities. To be considered a substantive plan, implementation of the plan should be reasonably possible. Arrangements providing for the joint development of software for mutual internal use (for example, cost-sharing arrangements) and routine market feasibility studies are not substantive plans to market software for purposes of this Subtopic. Both characteristics in ~~the preceding~~ paragraph 350-40-15-2A must be met for software to be considered for internal use. **[Content amended as shown and moved from paragraph 350-40-05-3]**

350-40-15-2C An entity's past practices related to selling software may help determine whether the software is for internal use or is subject to a plan to be marketed externally. For example, an entity in the business of selling computer software often both uses and sells its own software products. Such a past practice of both using and selling computer software creates a rebuttable presumption that any software developed by that entity is intended for sale, lease, or other marketing~~, and thus is subject to the guidance in Subtopic 985-20~~. **[Content amended as shown and moved from paragraph 350-40-05-4]**

350-40-15-5 Costs of computer software that is sold, leased, or otherwise marketed as a separate product or as part of a product or process are within the scope of Subtopic 985-20. ~~Computer software to be sold, leased, or otherwise marketed includes software that is part of a product or process to be sold to a customer and shall be accounted for under Subtopic 985-20.~~ For example, software designed for and embedded in a semiconductor chip is included in the scope of that Subtopic because it is an integral part of the product. By contrast, software for internal use, though it may be used in developing a product, is not part of or included in the actual product or service sold. If software is used by the vendor in the production of the product or providing the service but the customer does not acquire the software or the future right to use it, the software is covered by this Subtopic. For example, for a communications entity selling telephone services, software included in a telephone switch is part of the internal equipment used to deliver a service but is not part of the product or service actually being acquired or received by the customer. **[Content amended as shown and moved from paragraph 350-40-05-5]** Paragraph 350-40-55-1 includes examples of computer software considered to be for internal use and thus not part of a product or process. Paragraph 350-40-55-2 includes examples of when computer software is not for internal use.

15. Amend paragraphs 350-40-25-5 and 350-40-25-7, with no link to a transition paragraph, as follows:

Recognition

> Application Development Stage

350-40-25-5 Data conversion costs, except as noted in paragraph 350-40-25-3, shall be expensed as incurred. The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system. ~~Data conversion often occurs during the application development stage.~~ **[Content amended as shown and moved from paragraph 350-40-05-8]**

> Upgrades and Enhancements

350-40-25-7 Upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. **[Content moved from paragraph 350-40-05-9]** In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized in accordance with paragraphs 350-40-25-8 through 25-10, it must be probable that those expenditures will result in additional functionality.

Amendments to Subtopic 985-20

16. Amend paragraph 985-20-60-1, with no link to a transition paragraph, as follows:

Software—Costs of Software to Be Sold, Leased, or Marketed

Relationships

> Intangibles—Goodwill and Other

985-20-60-1 For guidance to help determine whether software is developed for internal use or is subject to a plan to be marketed externally, see paragraphs 350-40-15-2 through 15-2C and 350-40-15-5 ~~350-40-05-4 through 05-5~~.

Amendments to Status Sections

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

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

Paragraph	Action	Accounting Standards Update	Date
350-10-05-1	Amended	2017-04	01/26/2017
350-10-05-2	Superseded	2017-04	01/26/2017
350-10-05-3	Amended	2017-04	01/26/2017
350-10-05-3A	Added	2017-04	01/26/2017
350-10-05-4 through 05-7	Superseded	2017-04	01/26/2017

18. 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	Action	Accounting Standards Update	Date
Securities and Exchange Commission (SEC) Filer	Added	2017-04	01/26/2017
350-20-05-3	Superseded	2017-04	01/26/2017
350-20-05-4A	Added	2017-04	01/26/2017
350-20-05-4B	Added	2017-04	01/26/2017
350-20-05-5	Amended	2017-04	01/26/2017
350-20-05-5A	Added	2017-04	01/26/2017
350-20-15-3	Amended	2017-04	01/26/2017
350-20-35-1 through 35-3	Amended	2017-04	01/26/2017
350-20-35-3B	Amended	2017-04	01/26/2017
350-20-35-3D through 35-4	Amended	2017-04	01/26/2017
350-20-35-6	Amended	2017-04	01/26/2017
350-20-35-8	Amended	2017-04	01/26/2017
350-20-35-8A through 35-11	Superseded	2017-04	01/26/2017
350-20-35-8B	Added	2017-04	01/26/2017
350-20-35-14 through 35-21	Superseded	2017-04	01/26/2017
350-20-35-25	Amended	2017-04	01/26/2017
350-20-35-30	Amended	2017-04	01/26/2017
350-20-35-39A	Added	2017-04	01/26/2017
350-20-35-57A	Amended	2017-04	01/26/2017
350-20-35-73	Amended	2017-04	01/26/2017
350-20-40-7	Amended	2017-04	01/26/2017
350-20-50-1A	Added	2017-04	01/26/2017
350-20-50-2	Amended	2017-04	01/26/2017
350-20-55-10	Amended	2017-04	01/26/2017
350-20-55-12 through 55-17	Amended	2017-04	01/26/2017
350-20-55-19 through 55-26	Amended	2017-04	01/26/2017
350-20-55-23A through 55-23D	Added	2017-04	01/26/2017
350-20-65-3	Added	2017-04	01/26/2017

19. Amend paragraph 350-30-00-1, by adding the following items to the table, as follows:

350-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
350-30-05-1	Amended	2017-04	01/26/2017
350-30-05-2 through 05-5	Added	2017-04	01/26/2017
350-30-35-26	Amended	2017-04	01/26/2017

20. Amend paragraph 350-40-00-1, by adding the following items to the table, as follows:

350-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
350-40-05-1	Amended	2017-04	01/26/2017
350-40-05-1A	Added	2017-04	01/26/2017
350-40-05-1B	Added	2017-04	01/26/2017
350-40-05-2 through 05-5	Superseded	2017-04	01/26/2017
350-40-05-8	Superseded	2017-04	01/26/2017
350-40-05-9	Superseded	2017-04	01/26/2017
350-40-15-2A through 15-2C	Added	2017-04	01/26/2017
350-40-15-5	Amended	2017-04	01/26/2017
350-40-25-5	Amended	2017-04	01/26/2017
350-40-25-7	Amended	2017-04	01/26/2017

21. Amend paragraph 985-20-00-1, by adding the following item to the table, as follows:

985-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
985-20-60-1	Amended	2017-04	01/26/2017

The amendments in this Update were adopted by the affirmative vote of four members of the Financial Accounting Standards Board. Ms. Botosan and Messrs. Schroeder and Smith dissented.

Ms. Botosan and Messrs. Schroeder and Smith dissent from the issuance of this Accounting Standards Update because they believe the treatment may result in an accounting outcome that does not reflect the relevant economic conditions, thereby resulting in information that is not decision useful.

Ms. Botosan and Messrs. Schroeder and Smith acknowledge the costs incurred by preparers in applying the second step of the current two-step model for identifying and measuring goodwill impairment. The first step of the current model identifies a potential impairment when the fair value of the reporting unit is less than its carrying amount. Many users indicate that information resulting from the first step regarding the existence of a goodwill impairment is more important than the precision of its measurement achieved in the second step. Therefore, the three dissenting Board members agree with the objective of the narrow scope of the Update. However, they believe that there are situations in which applying the Update's one-step model will result in the misidentification of an impairment of goodwill.

For example, in a rising interest rate environment there is a significant possibility that the fair value of reporting units of financial institutions and other entities with significant financial assets could fall below their carrying amounts. Applying the requirements of this Update's amendments could result in an impairment of recorded goodwill even though the decrease in the fair value of the reporting unit may be caused by a reduction in the fair value of financial assets carried at amortized cost. Several financial institutions addressed this potential outcome in their responses to the proposed Update. To address those concerns, the three dissenting Board members believe that an entity should be allowed to apply the existing two-step process of identifying and measuring an impairment of goodwill.

Ms. Botosan and Messrs. Schroeder and Smith understand that allowing an entity to apply either a one- or two-step approach of identifying and measuring goodwill impairment results in increased cost to users in terms of understanding the different options available to entities. However, they believe that the cost would be greater if the result of applying just the Update's model provided users with misinformation about an impairment.

The issue described above arises when the fair value of nongoodwill assets (for example, financial assets carried at amortized cost) is less than the carrying amount. Ms. Botosan and Mr. Schroeder have an additional concern, which can arise when the fair value of an entity's liabilities differs from the carrying amount.

The first step of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. This comparison may be conducted at the level of “total assets” net of working capital (also referred to as an enterprise premise of value) or “net assets” (also referred to as an entity premise of value). Ms. Botosan and Mr. Schroeder are concerned that both the existence and amount of goodwill impairment could be affected by differences between the fair value and the carrying amount of a reporting unit’s liabilities if the first-step impairment assessment is performed using an entity premise. This is because when using an entity premise, any difference between the fair value and the carrying amount of the reporting unit captures differences related to goodwill and other nongoodwill assets, as well as any differences attributable to liabilities. However, any difference between the fair value and the carrying amount of the reporting unit captures only differences related to goodwill and other nongoodwill assets if the comparison is performed using an enterprise premise.

The one-step test performed using an entity premise can result in over-identification of impairment if the fair value of liabilities exceeds the carrying amount. This result is counterintuitive to the extent the increase in the fair value of an entity’s liabilities is because of an improvement in creditworthiness. The second step of the impairment test serves to mitigate this limitation as does the use of an enterprise premise of value in conducting the first step of the impairment test. By eliminating the second step, an entity experiencing an increase in the fair value of its liabilities will have an incentive to conduct the first step of the impairment test using an enterprise premise of value. Thus, Ms. Botosan and Mr. Schroeder believe that eliminating the second step of the goodwill impairment test, as implemented within this Update, will not result in an increase in instances in which an impairment charge will be taken when it is not warranted because of an increase in the fair value of liabilities.

In contrast, a one-step test performed using an entity premise can result in under-identification of impairment if the fair value of liabilities is less than the carrying amount. This result also is counterintuitive to the extent the decrease in the fair value of an entity’s liabilities is because of a deterioration in creditworthiness. Except in cases of zero or negative carrying amounts of net assets, the accounting approach employed before and after the adoption of this Update share this limitation. Under the accounting approach employed before the adoption of this Update, entities with one or more reporting units with zero or negative carrying amounts of net assets were required to go directly to the second step of the impairment test if they failed to pass the qualitative assessment.

As discussed above, the effect of this limitation could be mitigated by employing an enterprise premise of value when conducting the first step of the impairment test. However, an entity experiencing a decrease in the fair value of its liabilities has no incentive to mitigate the understatement of the existence and amount of impairment. To the contrary, the entity may prefer to employ an entity premise of value to take advantage of the understatement of the existence and amount of impairment. Ms. Botosan and Mr. Schroeder are concerned that continuing to allow an entity premise of value to be employed in the first step could result in instances in which an impairment charge will not be taken when it is warranted. In addition, they are concerned that continuing to allow the application of an entity premise of value while extending step one of the impairment test to entities with zero or negative carrying amounts of net assets will result in an increase in instances in which an impairment charge will not be taken when it is warranted.

Ms. Botosan and Mr. Schroeder believe that these issues could be addressed by requiring all entities to employ an enterprise premise of value in conducting the first step of the goodwill impairment test. They believe that allowing entities to choose between the enterprise premise of value and the entity premise of value in conducting the first step might result in inconsistency in the approaches entities employ to estimate the amount of impairment loss. Moreover, they believe that by eliminating the second step, an entity's choice between using an enterprise or an entity premise of value will be biased. Specifically, an entity experiencing an increase in the fair value of liabilities will lean toward choosing an enterprise premise of value to limit the overstatement of the existence and amount of impairment. In contrast, an entity experiencing a decrease in the fair value of liabilities will lean toward choosing an entity premise of value to understate the existence and amount of impairment.

Finally, entities with zero or negative carrying amounts of net assets will face particularly strong incentives to choose to conduct the first step of the impairment test using an entity premise of value to avoid reporting the existence of an impairment.

In summary, Ms. Botosan and Messrs. Schroeder and Smith believe that their concerns about the potential misidentification and mismeasurement of goodwill, which may arise when the fair value of nongoodwill assets is less than the carrying amount, could have been addressed by providing entities with an option to undertake the second step. In addition, Ms. Botosan and Mr. Schroeder dissent from the Update because it fails to require an enterprise premise of value in conducting the first step of the goodwill impairment test. This feature would have addressed their concerns about the potential misidentification and mismeasurement of goodwill that may arise when the fair value of liabilities differs from the carrying amount.

Members of the Financial Accounting Standards Board

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Daryl E. Buck
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.

Background Information

BC2. Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill, provides guidance on the subsequent accounting for goodwill acquired in a business combination. Much of the guidance in that Subtopic was previously included in FASB Statement No. 142, *Goodwill and Other Intangible Assets*. Statement 142 was issued in June 2001 and, among other things, changed the accounting for goodwill acquired in a business combination from an amortization and impairment model to an impairment-only model. Before Statement 142, goodwill recognized in a business combination, if any, was amortized over its useful life, not to exceed 40 years. Unless the private company alternative for the subsequent accounting of goodwill is adopted, goodwill is not amortized but is tested for impairment at least annually under Subtopic 350-20.

BC3. Before issuance of this Update, GAAP included a two-step goodwill impairment test for entities that had not adopted the private company alternative for goodwill. Step 1 of that test required an entity to compare the fair value of a reporting unit with its carrying amount, including goodwill, to determine if an impairment existed. If the carrying amount exceeded the fair value of the reporting unit, an entity would have performed Step 2 of the goodwill impairment test. Step 2 included determining the implied fair value of goodwill and comparing it with the carrying amount of that goodwill. If a reporting unit had a zero or negative carrying amount, the entity would have performed a qualitative assessment for that reporting unit to determine whether it was more likely than not that goodwill was impaired. If so, the entity would have performed Step 2 to determine if an impairment existed and the amount of that impairment, if any.

BC4. When Statement 142 was issued, many stakeholders supported the concept of a goodwill impairment test, but feedback was mixed on whether the test would work in practice and whether another method of accounting for goodwill would be more appropriate.

BC5. In 2011, because of concerns about the cost and complexity of the annual two-step goodwill impairment test, the Board developed an optional qualitative assessment as a screen for entities to evaluate whether it is more likely than not that goodwill is impaired before they perform the quantitative impairment test (originally included in the amendments in FASB Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* and now included in Subtopic 350-20). While there is some evidence that the use of the qualitative screen has increased over recent years, the Board acknowledges that its use may vary depending on overall economic conditions. Therefore, many entities would continue to incur the cost and complexity from applying the two-step quantitative impairment test.

BC6. The Private Company Council (PCC) was established in 2012 to improve the standard-setting process for private companies, and one of its initial projects was to further address the subsequent accounting for goodwill for private companies. The PCC added this issue to its agenda in response to feedback from private company stakeholders that indicated that the benefits of the current accounting for goodwill do not justify the related costs.

BC7. The private company alternative consists of several changes to the subsequent measurement of goodwill for an entity that elects it, including amortization of goodwill over a 10-year period and a one-step impairment test performed only upon a triggering event. The alternative also allows a policy election for an entity to perform the impairment test at the entity level or the reporting unit level.

BC8. Upon endorsement of the accounting alternative developed by the PCC to address the private company concerns, the Board added a project to its agenda to evaluate whether the subsequent measurement of goodwill also should be simplified for public business entities and other entities that do not elect the private company alternative.

BC9. In 2015, the Board decided to separate the project on the subsequent accounting for goodwill for public business entities into two phases. Phase 1, which is addressed in this Update, is to simplify the goodwill impairment test. In the future phase of the project, the Board plans to consider whether to make additional changes to the goodwill accounting model.

BC10. The amendments in this Update do not preclude the Board from making further changes to the accounting model for goodwill under Phase 2 of the project, including consideration of permitting or requiring amortization of goodwill and/or further changes to the impairment testing methodology. However, the Board decided to move Phase 2, the project on subsequent accounting for goodwill for public business entities and not-for-profit entities, to the research agenda while it monitors the effectiveness of the guidance in this Update and considers the results of changes, if any, that the IASB implements for International Financial Reporting Standards (IFRS).

Basis for Conclusions

BC11. The Board considered whether the entire private company alternative should be applied to all entities. However, considering concerns about the benefits that may or may not be derived from the reporting of goodwill, the Board decided to focus its Phase 1 discussions on simplifying the impairment test by addressing concerns that Step 2 of the test is overly complex and costly to implement. Additional concepts in the private company alternative, such as amortization of goodwill, may be considered by the Board in the future phase of the project.

BC12. The Board concluded that simplifying the goodwill impairment test by eliminating Step 2 will result in reduced costs for preparers while maintaining the usefulness of information provided to users of an entity's financial statements. This is particularly the case considering the Post-Implementation Review on FASB Statement No. 141 (revised 2007), *Business Combinations,* in which an assessment conducted by the staff of the Financial Accounting Foundation reported that Statement 141(R) "introduced more complexity and costs to the accounting for business combinations than the FASB anticipated." Much of the complexity was related to the application of the measurement principle, which is the same principle required in Step 2 of the impairment test.

BC13. The Board acknowledges that calculating impairment by comparing the carrying amount of a reporting unit with its fair value in many cases could result in a less precise amount of goodwill impairment and that this concern may be greater for companies in certain industries. However, many users have indicated that the most useful information is knowing whether an impairment charge is warranted, not the precise amount of that impairment.

BC14. Eliminating Step 2 from the goodwill impairment test under Topic 350 also results in guidance that more closely aligns with the requirements in IFRS as indicated in IAS 36, *Impairment of Assets,* for some aspects of the goodwill impairment test. IAS 36 requires an entity to test goodwill for impairment using a one-step quantitative impairment test; however, that test is at the cash-generating unit or group of cash-generating units level and compares the carrying amount of that unit with its recoverable amount.

BC15. The Board concluded that changes could be made to address concerns about the cost and complexity of the current goodwill impairment test under Phase 1 of the project without affecting areas of goodwill accounting that already have substantially converged. Therefore, the Board concluded that the reduction in cost and complexity, while maintaining the benefits inherent in goodwill impairment evaluations, justifies issuing the amendments in this Update.

One-Step Impairment Test or Optional Two-Step Impairment Test

BC16. Most of the feedback received from respondents who submitted comment letters on the proposed Update supported eliminating Step 2 of the goodwill impairment model and agreed that the change met the Board's objective of reducing the cost of the subsequent measurement of goodwill while maintaining the usefulness of the information provided to users of the financial statements.

BC17. However, respondents in the finance and insurance industries generally suggested that an option to apply Step 2 be allowed. Those respondents were concerned that a change in the fair value of nongoodwill assets or liabilities could result in an impairment charge under the one-step impairment test.

BC18. The Board considered whether to retain Step 2 as an option in redeliberations. Board members noted that entities in certain industries may be more susceptible to an impairment charge stemming from fair value changes in something other than goodwill because they may have significant assets or liabilities with fair values that could be significantly different from their carrying amounts. Respondents expressed concern that eliminating Step 2 could reduce the perceived precision of the goodwill impairment test or could result in an impairment charge when, in those respondents' view, none is warranted. The respondents noted that retaining an option to apply Step 2 would alleviate their concerns.

BC19. Board members who favored an optional Step 2 noted circumstances under which an entity could get an inconsistent answer under Step 1 and Step 2 of the impairment test, including differences between the impairment tests for goodwill and long-lived assets, changes in the fair value of financial assets because of changing interest rates, and mixed-attribute balance sheets for which many assets are recorded at fair value but liabilities are recorded at cost.

BC20. The Board discussed circumstances in which an option may benefit reporting units that might fail Step 1 of the test but pass Step 2 under the current guidance.

BC21. The Board also discussed concerns that a potential increase in the number of impairment charges because of unrecognized impairment in the value of other assets and liabilities could create confusion for users of this information because an impairment of goodwill under Step 1 may not mean the same thing that it did under the two-step impairment test. Although a few Board members acknowledged that this could be contrary to users' expectations for impairment, other Board members noted that many users do not have a robust understanding of how the calculation under Step 2 works. The simpler calculation under the one-step test may be better understood.

BC22. The Board agreed that eliminating Step 2 results in impairment based on the fair value of the reporting unit as a whole and it is reasonable to record an impairment if the fair value of the reporting unit is less than its carrying amount. The Board noted that it is appropriate for that charge to reduce goodwill because goodwill is a residual asset. Additionally, the Board noted that users will have increased insight into situations in which the net assets of a reporting unit are higher than their fair value.

BC23. The Board also noted that retaining Step 2 on an optional basis could create confusion and may decrease comparability. It may be more difficult for users to interpret what that impairment represents if entities are calculating goodwill impairment in different ways.

BC24. The Board noted that the overall goal of eliminating Step 2 is to simplify the impairment test while maintaining its usefulness and that retaining Step 2 as an option would be less effective in reaching that goal. The Board ultimately concluded that eliminating Step 2 from the impairment test was the most effective way to meet this objective.

Valuation Method

BC25. Another issue discussed by the Board was that a change in the fair value of liabilities can have a similar effect on the results of the impairment test. If the fair value of liabilities were to differ from the carrying amount, a counterintuitive result could occur if those liabilities are included in the valuation of the reporting unit (as they would be under an entity valuation premise).

BC26. GAAP does not prescribe the valuation premise that an entity must use in the impairment test. It only mandates that the same assets and liabilities be used to determine both the carrying amount and fair value and that the methodology be consistently applied.

BC27. The Board considered whether the guidance should prescribe the method for allocating assets and liabilities to reporting units as follows:

a. In a manner similar to the guidance in IAS 36, which excludes most recognized liabilities from the unit of account for goodwill impairment testing
b. Under an enterprise premise, which excludes financing liabilities from the carrying amount and fair value of a reporting unit.

BC28. Some Board members believe that the IAS 36 model might exclude some liabilities that were relevant to an impairment assessment. Some Board members also believe that the enterprise premise might be difficult to apply given various interpretations of what constitutes a financing liability and noted that this approach is not precluded under current guidance. The Board ultimately decided not to make any change to existing GAAP in this area and noted that existing GAAP does not prescribe the valuation method to be used in the impairment test.

Tax Issues

BC29. A few respondents recommended amending the guidance in paragraph 350-20-35-2 to reflect the effect of changes in deferred taxes when goodwill is tax deductible. The Board acknowledges that this is necessary to avoid a situation in which a reporting unit's carrying amount exceeds its fair value immediately after recording an impairment charge resulting from an increase in the carrying amount of the reporting unit from changes in the deferred taxes associated with the impairment charge.

BC30. A private company that had previously adopted the private company alternative for goodwill also is subject to the one-step impairment test, even though it is only required upon a triggering event and can be applied at the entity level if so elected. Therefore, the guidance on the effect of tax deductible goodwill also is relevant under the private company alternative. The effect of tax deductible goodwill was not considered when the private company alternative was developed. The Board decided to include a reference within the private company accounting alternative to the new guidance. If a private company that has tax deductible goodwill elects to apply the impairment test at the entity level, the guidance in paragraph 350-20-35-8B still applies, but any references to a reporting unit should be understood to refer to the entity.

BC31. The Board considered whether the guidance on deferred income tax considerations when determining the fair value of a reporting unit outlined in paragraphs 350-20-35-25 through 35-27 and illustrated in Examples 1 and 1A should be retained, should be moved to Topic 820, Fair Value Measurement, or should be superseded.

BC32. Most respondents to the proposed Update favored retaining the guidance in Topic 350, noting its usefulness when determining fair value. The Board concluded that the guidance should be retained in Topic 350 because it is tailored for specific scenarios related to determining the fair value of a reporting unit for goodwill impairment testing. However, the Board noted that an entity should get the same answer under this guidance as they would applying the fair value guidance in Topic 820.

Incomplete Impairment Test

BC33. This Update supersedes paragraphs 350-20-35-18 through 35-19. Those paragraphs stated that the best estimate of an impairment loss should be recognized in the financial statements if Step 2 of the goodwill impairment test is not complete before the financial statements are issued or are available to be issued and a goodwill impairment loss is probable and can be reasonably estimated. Additionally, disclosure of the fact that the loss is an estimate was required.

BC34. A few respondents commented that the guidance should be amended instead of superseded to provide the same requirements if Step 1 is not complete. The Board considered this suggestion but concluded that an entity should be able to complete the one-step impairment test before the financial statements are issued or are available to be issued. One Board member noted that it would be difficult to estimate a loss without having completed the first step of the impairment test. The Board did not want to allow only disclosure as a surrogate for accruing a loss.

Reporting Units with Zero or Negative Carrying Amounts

BC35. Before issuance of this Update, GAAP required a qualitative assessment to determine whether it was more likely than not that goodwill was impaired for any reporting unit with a zero or negative carrying amount of net assets. If goodwill impairment was indicated by the qualitative analysis, an entity would perform Step 2 for that reporting unit to determine the existence and amount of any impairment. This guidance resulted from a consensus of the Emerging Issues Task Force in 2010.

BC36. In conjunction with eliminating Step 2 from the guidance, the Board addressed the question of how goodwill should be assessed for impairment for reporting units with zero or negative carrying amounts.

BC37. Most respondents supported requiring the same one-step test to be applied to all reporting units and to disclose the existence and goodwill allocated to each reporting unit with zero or negative carrying amounts. A few respondents suggested alternative ideas for reporting units with zero or negative carrying amounts, which the Board had considered in initial deliberations, including:

a. Retain current GAAP
b. Require an enterprise premise in calculating the fair value
c. Require write off of goodwill, subject to a rebuttable presumption.

BC38. Research indicated that the population of reporting units with zero or negative carrying amounts was relatively small. Research also indicated that in the few cases in which the staff identified reporting units with zero or negative carrying amounts, the majority did not report any impairment under current GAAP. Accordingly, the Board found that weighing the benefits and costs of various accounting models for assessing impairment of goodwill of those reporting units was difficult, especially given the simplification objective of the project.

BC39. Some Board members believe that requiring the one-step impairment test for all reporting units will result in the most consistent and least complex test. Those members also acknowledge that allowing or requiring a different test for reporting units with zero or negative carrying amounts was inconsistent with the treatment for reporting units with small positive carrying amounts and could have resulted in vastly different impairment charges.

BC40. The Board recognizes that under a one-step impairment test, there could be reporting units that will not recognize a charge for goodwill that some may view to be impaired but that under the writeoff model, there could be reporting units that will write off goodwill even though it is not impaired.

BC41. The Board also discussed whether a qualitative assessment should be performed before writing off any goodwill. The Board acknowledges that there could be reasons for a reporting unit to have a zero or negative carrying amount that are unrelated to the utility of its assets and that might be addressed by qualitative factors. However, the Board concluded that the qualitative assessment in the current guidance for reporting units with zero or negative carrying amounts is irrelevant because it relies on the concepts of goodwill impairment that are included in Step 2 of the two-step goodwill impairment test.

BC42. The Board considered a qualitative assessment that is based on changes in the performance of a reporting unit with a zero or negative carrying amount. Some Board members believe that any qualitative assessment will be challenging to apply effectively for reporting units with zero or negative carrying amounts because of the change in the impairment concept from relying on the implied fair value of goodwill to simply calculating the fair value and carrying amount of a reporting unit. A positive fair value of a reporting unit, no matter how small, will always be higher than a zero or negative carrying amount and, therefore, attempting to determine qualitative factors that indicate otherwise is impractical.

BC43. The Board also considered a rebuttable presumption that goodwill is impaired for reporting units with zero or negative carrying amounts. Under this alternative, an entity could rebut the presumption by providing reasonable and supportable information to demonstrate that the reporting unit is not impaired.

BC44. Some Board members observed that a rebuttable presumption is generally a very high barrier to overcome in practice and that identifying the necessary information to do so is arduous. Those members believe that a rebuttable presumption would have increased cost and complexity in many cases. The Board rejected this approach because the practical application of this alternative also would be difficult given the revised concept of impairment, and some Board members noted that there were inherent problems in defining how a reporting unit could rebut the presumption.

BC45. An entity is not at present required to disclose the existence of reporting units with zero or negative carrying amounts. To address this lack of transparency, the Board decided to require an entity to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount. The Board notes that this disclosure should provide useful information to users of financial statements because these reporting units may not record an impairment charge under the one-step impairment test.

BC46. The Board also considered requiring additional disclosures for these reporting units, including the facts and circumstances creating the zero or negative carrying amount. One Board member noted that disclosure of these reasons would allow a user to better assess the viability of goodwill. The Board decided that the disclosure of the existence of these reporting units would be sufficient to alert users of potential goodwill issues.

BC47. The Board concluded in redeliberations that the one-step test is the most appropriate. The Board observed that the population of reporting units with zero or negative carrying amounts is small. Based on this small population, the Board further noted that there was no goodwill impairment reported for the majority of the reporting units when applying Step 2 of the goodwill impairment test. However, the Board noted that the requirement to disclose these reporting units may indicate a larger population than the initial research because of a lack of transparency under current guidance.

BC48. Additionally, the Board concluded it would be counterintuitive for a reporting unit with a small negative carrying amount to be applying a different test or using a different valuation premise than a reporting unit with a small positive carrying amount. Economically, there is little difference between these two reporting units, but applying different impairment tests could result in different outcomes.

Allocating Assets and Liabilities to Reporting Units

BC49. Some Board members were concerned that entities could manipulate the allocation of assets and liabilities to reporting units to avoid impairment charges. The guidance on determining the carrying amount of a reporting unit allows for significant judgment; however, it requires that the elements of a reporting unit be the same for determining both its carrying amount and its fair value and that the methodology be consistently applied.

BC50. The Board notes that the amendments in this Update should not necessarily trigger changes to the composition of a reporting unit and that preparers, auditors, and regulators should pay close attention to any change to a reporting unit that results in a zero or negative carrying amount, including changes made leading up to the adoption of the new guidance given the length of time until the effective dates.

BC51. The Board emphasizes that the allocation of assets and liabilities to reporting units should not be viewed as an opportunity to avoid impairment charges and should only be changed if there is a change in facts and circumstances for a reporting unit.

BC52. However, the Board notes that the issuance of this guidance could be considered a change in facts and circumstances in some cases and it might be appropriate to change valuation methods in certain circumstances. For example, if a reporting unit with a negative carrying amount is reevaluated and the entity determines that a more representative impairment evaluation could be performed under the one-step test using an enterprise premise of fair value, it would be reasonable for it to exclude previously included financing liabilities from the carrying amount of the reporting unit. However, the Board reiterates that the allocation of assets and liabilities to reporting units should not be viewed as an opportunity to achieve a desired impairment result and that a change in valuation method must be supportable.

Deferred Income Taxes

BC53. Under the guidance in paragraph 350-20-35-7, an entity is required to include deferred income taxes in the carrying amount of a reporting unit regardless of whether it assumes a taxable or nontaxable transaction in determining the fair value of the reporting unit. In Step 2 of the impairment test, which an entity previously used to determine the fair value of all individual assets and liabilities for a reporting unit, deferred income taxes were not included in an assumed taxable transaction but were included when the transaction was assumed to be nontaxable. Accordingly, even though a taxable transaction assumption generally leads to a higher fair value of a reporting unit than a nontaxable transaction, the current Step 2 guidance results in a largely comparable goodwill impairment amount between the two assumptions.

BC54. The amendments in this Update eliminate Step 2. Consequently, once a reporting unit fails Step 1 of the quantitative test, the impairment amount under an assumed taxable transaction generally will be lower than an assumed nontaxable transaction by an amount equal to the difference in the fair value of the reporting unit between the two assumptions. The larger difference in the impairment amounts between different assumed tax structures is a function of the guidance that assesses impairment on the basis of the excess of the carrying amount of the reporting unit over its fair value instead of the implied fair value of goodwill.

Foreign Currency Translation Adjustments

BC55. Another characteristic of a reporting unit that can affect the difference between that reporting unit's fair value and its carrying amount is the effect of translating assets and liabilities from a foreign currency. On a consolidated basis, the cumulative translation adjustment is recorded within accumulated other comprehensive income and includes any gains or losses that an entity incurs from translating financial information from a subsidiary's functional currency into the reporting currency of the consolidated entity. The amendments in this Update clarify that the effect of foreign currency translation should not be an allocation of the cumulative translation adjustment to the reporting unit, but should be determined on the basis of the assets and liabilities assigned to that reporting unit. The Board acknowledges that changes in foreign currency rates can still affect the carrying amount of a reporting unit and could affect the amount of impairment recognized. The Board also notes that other comprehensive income can change as a result of goodwill or goodwill impairment being remeasured into the reporting currency and those adjustments are unrelated to the amendments in this Update.

BC56. The Board acknowledges that there is guidance in Topic 830, Foreign Currency Matters, related to cumulative translation adjustments whereby an entity should include some or all of the cumulative translation adjustment as part of the carrying amount of an investment in a foreign entity when testing that investment for impairment if the entity has committed to a plan to dispose of that investment. The Board notes that there is diversity in practice and some entities have interpreted this as meaning the applicable cumulative translation adjustment should be included in the carrying amount of a reporting unit that includes that investment. However, the Board concluded that the testing of an investment (even if it is a consolidated investment that includes goodwill) for impairment is different from testing goodwill for impairment. Additionally, the Board notes that the cumulative translation adjustment generally would not meet the criteria for inclusion in a reporting unit in accordance with paragraph 350-20-35-39.

Effective Date and Transition

BC57. The Board concluded that an entity is required to apply the amendments in this Update prospectively from the date of adoption. The Board decided that prospective application will not result in the loss of comparability across periods for most entities.

BC58. The Board considered allowing modified retrospective application, but noted that this likely would have been useful only for entities with reporting units that would have failed Step 1 but passed Step 2 under the two-step impairment test. The Board also noted that it would have been unnecessarily complex to develop criteria for determining which entities should be allowed to adopt retrospectively, and an unfettered option to use modified retrospective application would have decreased comparability. The Board also concluded that requiring a modified retrospective approach would have reduced the cost savings associated with the changes.

BC59. All respondents noted that the guidance in this Update would be quick to implement. However, the Board discussed the relationship of the goodwill impairment test with the guidance on credit losses in Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

BC60. The Board acknowledges that there could be a double counting of losses for certain entities with significant financial instruments, such as those in the financial services industry. For example, an entity that experiences a decline in the fair value of its loan portfolio after adopting the amendments in this Update and before adopting the current expected credit loss (CECL) model could record a goodwill impairment charge if the decrease in loan value results in the carrying amount of the reporting unit exceeding its fair value. Subsequently, the entity could record another charge for loan impairment when it adopts the CECL model and records the expected credit losses associated with those loans.

BC61. Aligning the effective dates of the guidance in this Update with the CECL guidance allows an entity to first adjust the carrying amount of its loan portfolios (and, therefore, the carrying amount of the associated reporting unit) before testing for goodwill impairment, eliminating the potential double counting of losses associated with the loans. The Board acknowledges that aligning the effective dates with the CECL guidance only addresses one area of accounting and that future changes to other areas of GAAP could result in a similar outcome.

BC62. All respondents stated that early adoption of the amendments in this Update should be permitted. The Board agreed with this feedback and envisions that most entities will adopt the amendments before the effective date.

BC63. The amendments in this Update are effective for annual and any interim impairment tests performed in periods beginning after:

a. December 15, 2019, for public business entities that are SEC filers
b. December 15, 2020, for public business entities that are not SEC filers
c. December 15, 2021, for all other entities, including not-for-profit entities.

BC64. The Board decided to allow early adoption for annual or any interim impairment tests performed for periods after January 1, 2017. The Board notes that an entity should apply the same guidance to an interim impairment test as the guidance it plans to use for its annual test in the year of adoption.

BC65. An entity should disclose the nature of and reason for the change in accounting principle in the fiscal period in which the change in accounting principle is made on the basis of the transition guidance in paragraphs 250-10-50-1(a) and 50-2. The Board discussed whether an entity should be required to disclose the accounting change even if the entity only evaluates goodwill for impairment under the qualitative assessment and does not perform the quantitative impairment test because the guidance for the qualitative assessment remains unchanged with the amendments in this Update. The Board decided that an entity can adopt the guidance in this Update and should disclose the change in accounting principle for the subsequent measurement of goodwill at that time even if it does not perform the quantitative test during the period of adoption.

BC66. The Board notes that an entity may have an indicator of impairment at the beginning of the annual period in which the amendments are adopted. For example, if a reporting unit's carrying amount exceeded its fair value during the most recent impairment test before adoption but the implied fair value of goodwill exceeded its carrying amount when applying Step 2 and no impairment was recognized, the entity likely would have an indicator of impairment for that reporting unit as of the beginning of the period of adoption based on the change in how goodwill impairment is measured.

BC67. The Board discussed whether a private company that previously adopted the accounting alternative for the subsequent measurement of goodwill could apply the amendments in this Update. The Board concluded that private companies that have adopted the alternative for the subsequent measurement of goodwill but have not adopted the accounting alternative to subsume certain intangible assets into goodwill are permitted, but not required, to adopt the amendments in this Update on or before the effective date without having to justify preferability of the accounting change. The issuance of this Update should be sufficient to justify the change.

BC68. Additionally, the Board decided that all entities applying the new guidance should do so prospectively. A private company should use the remaining unamortized balance of goodwill as its new cost basis if it switches from the goodwill alternative. If that private company had elected to test goodwill for impairment at the entity level under the goodwill alternative, it should follow the guidance in paragraphs 350-20-35-33 through 35-38 and paragraphs 350-20-55-1 through 55-9 to determine an entity's reporting units. The private company should follow the guidance in paragraphs 350-20-35-41 through 35-44 to assign goodwill to those reporting units.

BC69. Private companies that have adopted the private company alternative to subsume certain intangible assets into goodwill are not permitted to adopt this guidance upon issuance without following the guidance in Topic 250, including justifying why it is preferable to change their accounting policies because those companies also are required to use the goodwill alternative.

BC70. The Board considered providing private companies switching from the private company alternative with the option of applying the amendments in this Update prospectively or retrospectively. The Board noted that only entities that are switching for purposes of SEC registration would be likely to choose retrospective application. However, the Board noted that if the private company expects to file with the SEC, the company should follow relevant SEC guidance, which generally requires retrospective application. The guidance in this Update does not supersede the retrospective application requirement in those circumstances. Therefore, the Board decided to require prospective application only for the amendments in this Update, noting that private companies that anticipate filing with the SEC can still adopt the amendments retrospectively under the relevant guidance for that scenario.

BC71. The Board discussed whether to modify the transition disclosure in paragraph 250-10-50-1(a) to exclude the requirement for an entity to explain why the newly adopted accounting principle is preferable. The Board acknowledges that this requirement is inconsistent with the concept that the issuance of amendments to the Codification is the reason the change is preferable. However, the Board concluded that the guidance requiring the explanation of preferability in this transition disclosure should be retained because previous Updates using this transition disclosure did not modify the requirements. The Board notes that it is widely accepted that disclosing the adoption of a new accounting principle satisfies the requirement to explain why the change was preferable. The Board expressed concern that modifying the transition disclosure for this Update may cause an entity or its auditor to question whether it should have previously disclosed additional information on preferability.

BC72. However, because the adoption of the amendments in this Update is voluntary for private companies that have adopted the accounting alternative for goodwill, the Board decided that it should include specific transition guidance for these companies to specify that they do not need to establish preferability if the amendments are adopted on or before the effective date. The Board notes that in circumstances in which a change in accounting principle is voluntary, the explanation of preferability would be a relevant disclosure.

Benefits and Costs

BC73. 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.

BC74. The Board anticipates that the amendments in this Update will reduce the costs of applying Topic 350 by providing relief to stakeholders in areas of the guidance that are complex to apply in practice and that do not provide incremental benefits to users of financial statements. The Board concluded that these simplifications will decrease cost and complexity in current GAAP without significantly changing the usefulness of the information provided to users of financial statements.

Amendments Related to the Overview and Background Sections of Topic 350

BC75. To provide conformity in information and content, the Board is updating the Overview and Background Sections of the Codification. The Board will expose changes to these Sections in conjunction with Accounting Standards Updates on the related Topics. Because Topic 350 includes Subtopics that cover intangible assets overall, goodwill, general intangible assets other than goodwill, internal-use software, and website development costs, the Board contemplated changes to the

Overview and Background Sections of these Subtopics. No changes were considered necessary for the Overview and Background Section of the Website Development Cost Subtopic, but changes to the other four Subtopics are included in this Update. The changes should not affect the related guidance in these Subtopics.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2018 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process.