FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: December 20, 2018
Comments Due: February 18, 2019

Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958)

Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topics 350, 805, and 958 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2018-320, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

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

The Board invites comments on all matters in this Exposure Draft until February 18, 2019. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2018-320
- Sending a letter to "Technical Director, File Reference No. 2018-320, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

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

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

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Summary and Questions for Respondents

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

In 2014, the Board issued Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill,* and Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination* (consensuses of the Private Company Council [PCC])*,* which simplify the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets in a business combination. Those amendments were in response to concerns expressed by private companies and their stakeholders (including users) about the cost and complexity of the goodwill impairment test and the accounting for certain identifiable intangible assets, among other concerns. When the Board issued both Updates, it acknowledged that the issues the Updates addressed were not limited to private companies; they also pertained to not-for-profit entities and public business entities. Therefore, the Board added to its agenda projects addressing the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets for those other entity types.

The Board received feedback from not-for-profit stakeholders that questioned the relevance of an impairment-only approach to goodwill as well as input that the benefits of the current accounting for goodwill and identifiable intangible assets acquired in an acquisition by a not-for-profit entity do not justify the related costs. By providing accounting alternatives, the amendments in this proposed Update would reduce the cost and complexity associated with the subsequent accounting for goodwill and the measurement of certain identifiable intangible assets acquired without significantly diminishing decision-useful information for users of not-for-profit financial statements. The objective of the proposed amendments is to extend the scope of the accounting alternatives provided in Updates 2014-02 and 2014-18 to not-for-profit entities, not to amend the guidance in the alternatives. The Board recently added another project to its agenda to examine the subsequent accounting for goodwill and the accounting for identifiable intangible assets, the scope of which will be determined after receiving feedback through an Invitation to Comment. The Board could decide that any amendments developed as part of that project also should apply to entities within the scope of this proposed Update. Thus, it is possible that entities electing these alternatives could be subject to future changes to the subsequent accounting for goodwill.

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

The amendments in this proposed Update would apply to all not-for-profit entities as defined in the Master Glossary of the *FASB Accounting Standards Codification*®, including those that are conduit bond obligors.

A not-for-profit entity within the scope of the amendments in this proposed Update that elects to apply the accounting alternative in Topic 350, Intangibles—Goodwill and Other, would be subject to all of the related subsequent measurement, derecognition, other presentation matters, and disclosure requirements of the accounting alternative. A not-for-profit entity within the scope of the proposed amendments that elects to apply the accounting alternative in Topic 805, Business Combinations, would be subject to all of the recognition requirements of the accounting alternative. A not-for-profit entity would apply the accounting alternative in Topic 805, if elected, to all transactions within the scope, defined below, that are entered into after the effective date.

The amendments in this proposed Update related to the accounting alternative in Topic 805 would apply when a not-for-profit entity within the scope is required to recognize or otherwise consider the fair value of intangible assets as a result of any one of the following transactions (in-scope transactions):

1. Applying the acquisition method under Topic 805 (or Subtopic 958-805, Not-for-Profit Entities—Business Combinations)
2. Assessing the nature of the difference between the carrying amount of an investment and the amount of underlying equity in net assets of an investee when applying the equity method under Topic 323, Investments—Equity Method and Joint Ventures
3. Adopting fresh-start reporting under Topic 852, Reorganizations.

What Are the Main Provisions?

The amendments in this proposed Update would extend the private company alternatives from Topic 350 (Update 2014-02) and Topic 805 (Update 2014-18) to not-for-profit entities.

Under the amendments in this proposed Update to the accounting alternative in Topic 350, a not-for-profit entity would amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate. A not-for-profit entity that elects this accounting alternative would be required to make an accounting policy decision to test goodwill for impairment at either the entity level or the reporting unit level. A not-for-profit entity would be required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount. Under the proposed amendments to the accounting alternative in Topic 805, for transactions occurring after adoption of the alternative, a not-for-profit entity would subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired.

A not-for-profit entity that elects the accounting alternative in Topic 805 must adopt the alternative in Topic 350 to amortize goodwill. However, a not-for-profit entity that elects the accounting alternative in Topic 350 is not required to adopt the accounting alternative in Topic 805.

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

Under the amendments to Topic 350 in this proposed Update, instead of testing goodwill for impairment annually at the reporting unit level, a not-for-profit entity that elects the accounting alternative would amortize goodwill on a straight-line basis, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level.

Under the amendments to Topic 805 in this proposed Update, a not-for-profit entity that elects the accounting alternative would recognize fewer items as separate intangible assets in an acquisition. At present, an acquirer recognizes most assets acquired and liabilities assumed in an acquisition by a not-for-profit entity at their acquisition date fair values, including identifiable intangible assets. An intangible asset is identifiable if it meets either of the following criteria:

1. It arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
2. It is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether an entity intends to do so.

The proposed amendments to the accounting alternatives in Topics 350 and 805, if elected, would reduce the cost and complexity associated with the subsequent accounting for goodwill and the accounting for certain items that currently are considered to be identifiable intangible assets for not-for-profit entities without significantly reducing relevance to users of not-for-profit financial statements.

Additionally, the proposed amendments make minor technical corrections to Section 350-20-40, Intangibles—Goodwill and Other—Goodwill—Derecognition, updating guidance originally amended by FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions.*

When Would the Amendments Be Effective?

The effective date will be determined after the Board considers stakeholders' feedback on the amendments in this proposed Update. Question 6 in this proposed Update is intended to address whether it is appropriate for not-for-profit entities to have the same indefinite effective date and unconditional one-time election that private companies have.

The transition methods for the guidance on each accounting alternative would be the same for not-for-profit entities as the previous transition methods for private companies. A not-for-profit entity would apply the accounting alternative in Topic 350, if elected, prospectively for all existing goodwill and for all new goodwill generated in acquisitions by not-for-profit entities after the effective date. A not-for-profit entity would apply the accounting alternative in Topic 805, if elected, upon the occurrence of the first transaction within the scope of the alternative.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Would the amendments in this proposed Update reduce overall costs and complexity compared with existing guidance? If not, please explain why.

Question 2: What effect would the proposed amendments have as it relates to the decision usefulness of financial reporting? For example, would the proposed amendments decrease, increase, or not affect decision usefulness? Please explain.

Question 3: Should the accounting alternatives in Topics 350 and 805 be extended to not-for-profit entities? If not, which aspects of the accounting alternatives do you disagree with and why?

Question 4: What reasons would prevent a not-for profit entity from adopting the alternatives on these Topics?

Question 5: Do you agree with the optionality of the accounting alternatives? If not, why should the accounting alternatives be required?

Question 6: Accounting Standards Update No. 2016-03, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic*

810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance, removes the effective date of these accounting alternatives for private companies. This was done to accommodate those companies that initially chose not to elect those alternatives because of public company exit strategies and may wish to later adopt the alternatives without having to establish preferability if their strategies subsequently change. Do not-for-profit entities experience changes in circumstances that would similarly warrant an indefinite effective date? If so, please describe those circumstances in detail.

Question 7: The Board recently added to its technical agenda another project on these Topics that, among other issues, will examine the amortization period for goodwill if the Board decides to pursue amortization as an alternative for public business entities or as a requirement for the system overall. The Board could decide that amendments developed as part of that project also should apply to not-for-profit entities within the scope of this proposed Update. Thus, it is possible that entities electing these alternatives could be subject to future changes on the same Topics. Are there any reasons why the Board should exclude not-for-profit entities as part of that other project? If so, please explain why.

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Section	Description of Changes
Scope and Scope Exceptions (350-20-15) (805-20-15)	• Amended the guidance to extend the scope of the accounting alternative to not-for-profit entities and updated paragraph references in Subtopics 350-20, Intangibles—Goodwill and Other—Goodwill, and 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest.
Recognition (805-20-25) (958-805-25)	• Amended the guidance in Subtopic 805-20 to expand the reference to the accounting alternative. • Amended the guidance in Subtopic 958-805, Not-for-Profit Entities—Business Combinations, to add a reference to the accounting alternative.
Subsequent Measurement (958-805-35)	• Added to Subtopic 958-805 a reference to the accounting alternative.
Subsequent Measurement (323-10-35) (350-20-35) Derecognition (350-20-40)	• Added conforming amendments to incorporate language for not-for-profit entities in Subtopics 323-10, Investments—Equity Method and Joint Ventures—Overall, 350-20, 805-30, Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred, and 958-805.

Codification Section	Description of Changes
Other Presentation Matters (350-20-45) Disclosure (350-20-50) (805-30-50) (958-805-50)	

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–15. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

3. Add the following Master Glossary terms to Subtopic 350-20 as follows:

Financial Statements Are Available to Be Issued

Financial statements are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, and/or significant shareholders. The process involved in creating and distributing the financial statements will vary depending on an entity's management and corporate governance structure as well as statutory and regulatory requirements.

Financial Statements Are Issued

Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with GAAP. (U.S. Securities and Exchange Commission [SEC] registrants also are required to consider the guidance in paragraph 855-10-S99-2.)

Amendments to Subtopic 350-20

4. Amend paragraphs 350-20-15-3A through 15-4, with a link to transition paragraph 350-20-65-4, 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.

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.

Scope and Scope Exceptions

General

> Transactions

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

Accounting Alternative

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

a. **Goodwill** that an entity recognizes in a business combination in accordance with Subtopic 805-30 <u>or in an **acquisition by a not-for-profit entity** in accordance with Subtopic 958-805</u> after it has been initially recognized and measured

b. Amounts recognized as goodwill in applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures, and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 on reorganizations.

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

5. Amend paragraph 350-20-35-63, with a link to transition paragraph 350-20-65-4, as follows:

Subsequent Measurement

Accounting Alternative

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

> Amortization of Goodwill

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

350-20-35-64 An entity may revise the remaining useful life of goodwill upon the occurrence of events and changes in circumstances that warrant a revision to the remaining period of amortization. However, the cumulative amortization period for any amortizable unit of goodwill cannot exceed 10 years. If the estimate of the remaining useful life of goodwill is revised, the remaining carrying amount of goodwill shall be amortized prospectively on a straight-line basis over that revised remaining useful life.

> Recognition and Measurement of a Goodwill Impairment Loss

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

> > When to Test Goodwill for Impairment

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

> > The Goodwill Impairment Test

350-20-35-67 Upon the occurrence of a triggering event, an entity may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the entity (or the reporting unit) is less than its carrying amount, including goodwill. Paragraph 350-20-35-3C(a) through (g) includes examples of those qualitative factors.

350-20-35-68 Because the examples included in paragraph 350-20-35-3C(a) through (g) are not all-inclusive, an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of the entity (or of the reporting unit) in determining whether to perform the quantitative goodwill impairment test. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the comparison of its fair value with its carrying amount (or of the reporting unit's fair value with the reporting unit's carrying amount). An entity should place more weight on the events and circumstances that most affect its fair value or the carrying amount of its net assets (or the reporting unit's fair value or the carrying amount of the reporting unit's 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 its fair value is less than its carrying amount (or the fair value of the reporting unit is less than the carrying amount of the reporting unit). If an entity has a recent fair value calculation (or recent fair value calculation for the reporting unit), it also should include that calculation as a factor in its consideration of the difference between the fair value and the carrying amount in reaching its conclusion about whether to perform the quantitative goodwill impairment test.

350-20-35-69 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 the entity (or the 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 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 goodwill impairment test.

350-20-35-70 An entity has an unconditional option to bypass the qualitative assessment described in paragraphs 350-20-35-67 through 35-69 and proceed directly to a quantitative calculation by comparing the entity's (or the reporting unit's) fair value with its carrying amount (see paragraphs 350-20-35-72 through 35-78). An entity may resume performing the qualitative assessment upon the occurrence of any subsequent triggering events.

350-20-35-71 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 not more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount, further testing is unnecessary.

350-20-35-72 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 the entity (or the reporting unit) is less than its carrying amount or if the entity elected to bypass the qualitative assessment in paragraphs 350-20-35-67 through 35-69, the entity shall determine the fair value of the entity (or the reporting unit) and compare the fair value of the entity (or the reporting unit) with its carrying amount, including goodwill. A goodwill impairment loss shall be recognized if the carrying amount of the entity (or the reporting unit) exceeds its fair value.

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. A goodwill impairment loss shall not exceed the entity's (or the reporting unit's) carrying amount of goodwill.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2021* I **Transition Guidance:** 350-20-65-3

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.

350-20-35-74 The guidance in paragraphs 350-20-35-22 through 35-27 shall be considered in determining the fair value of the entity (or the reporting unit).

350-20-35-75 The guidance in paragraphs 350-20-35-39 through 35-44 shall be considered in assigning acquired assets (including goodwill) and assumed liabilities to the reporting unit when determining the carrying amount of a reporting unit.

350-20-35-76 For an entity subject to the requirements of Topic 740 on income taxes, when determining the carrying amount of an entity (or a reporting unit), deferred income taxes shall be included in the carrying amount of an entity (or the reporting unit), regardless of whether the fair value of the entity (or the reporting unit) will be determined assuming it would be bought or sold in a taxable or nontaxable transaction.

350-20-35-77 The goodwill impairment loss, if any, shall be allocated to individual amortizable units of goodwill of the entity (or the reporting unit) on a pro rata basis using their relative carrying amounts or using another reasonable and rational basis.

350-20-35-78 After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis, which shall be amortized over the remaining useful life of goodwill. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

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

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

350-20-35-80 The requirement in the preceding paragraph 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.

> Equity Method Investments

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

350-20-35-82 However, equity method goodwill shall not be reviewed for impairment in accordance with this Subtopic. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.

6. Amend paragraphs 350-20-40-2 through 40-7 and 350-20-40-9, with a link to transition paragraph 350-20-65-4, as follows:

Derecognition

General

> Disposal of All or a Portion of a Reporting Unit

350-20-40-1 When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.

350-20-40-2 When a portion of a reporting unit that constitutes a business <u>or</u> **<u>nonprofit activity</u>** (see Section 805-10-55) is to be disposed of, goodwill associated with that business <u>or nonprofit activity</u> shall be included in the carrying amount of the business <u>or nonprofit activity</u> in determining the gain or loss on disposal.

350-20-40-3 The amount of goodwill to be included in that carrying amount shall be based on the relative fair values of the business <u>or nonprofit activity</u> to be disposed of and the portion of the reporting unit that will be retained. For example, if a business <u>or nonprofit activity</u> is being sold for $100 and the fair value of the reporting unit excluding the business <u>or nonprofit activity</u> being sold is $300, 25 percent of the goodwill residing in the reporting unit would be included in the carrying amount of the business <u>or nonprofit activity</u> to be sold.

350-20-40-4 However, if the business <u>or nonprofit activity</u> to be disposed of was never integrated into the reporting unit after its acquisition and thus the benefits of the acquired goodwill were never realized by the rest of the reporting unit, the current carrying amount of that acquired goodwill shall be included in the carrying amount of the business <u>or nonprofit activity</u> to be disposed of.

350-20-40-5 That situation might occur when the acquired business or nonprofit activity is operated as a standalone entity or when the business or nonprofit activity is to be disposed of shortly after it is acquired.

350-20-40-6 Situations in which the acquired business or nonprofit activity is operated as a standalone entity are expected to be infrequent because some amount of integration generally occurs after an acquisition.

350-20-40-7 When only a portion of goodwill is allocated to a business or nonprofit activity 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 35-19 using its adjusted carrying amount.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2021* I **Transition Guidance:** 350-20-65-3

When only a portion of goodwill is allocated to a business or nonprofit activity 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 using its adjusted carrying amount.

Accounting Alternative

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

> Disposal of a Portion of an Entity (or a Reporting Unit)

350-20-40-9 When a portion of an entity (or a **reporting unit**) that constitutes a business or **nonprofit activity** is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal. An entity shall use a reasonable and rational approach to determine the amount of goodwill associated with the business or nonprofit activity to be disposed of.

7. Amend paragraph 350-20-45-6, with a link to transition paragraph 350-20-65-4, as follows:

Other Presentation Matters

Accounting Alternative

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

350-20-45-5 The aggregate amount of goodwill net of accumulated amortization and impairment shall be presented as a separate line item in the statement of financial position.

350-20-45-6 The amortization and aggregate amount of impairment of goodwill shall be presented in income statement <u>or statement of activities</u> line items within continuing operations (or similar caption) unless the amortization or a goodwill impairment loss is associated with a discontinued operation.

350-20-45-7 The amortization and impairment of goodwill associated with a discontinued operation shall be included (on a net-of-tax basis) within the results of discontinued operations.

8. Amend paragraphs 350-20-50-4 and 350-20-50-6 through 50-7, with a link to transition paragraph 350-20-65-4, as follows:

Disclosure

Accounting Alternative

> Disclosures about Additions to Goodwill

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

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

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

350-20-50-5 The following information shall be disclosed in the financial statements or the notes to financial statements for each period for which a statement of financial position is presented:

a. The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss
b. The aggregate amortization expense for the period
c. 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.

> Goodwill Impairment Loss

350-20-50-6 For each goodwill impairment loss recognized, the following information shall be disclosed in the notes to 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 entity or the reporting unit (whether based on prices of comparable businesses or nonprofit activities, a present value or other valuation technique, or a combination of those methods)
c. The caption in the income statement or statement of activities in which the impairment loss is included
d. The method of allocating the impairment loss to the individual amortizable units of goodwill.

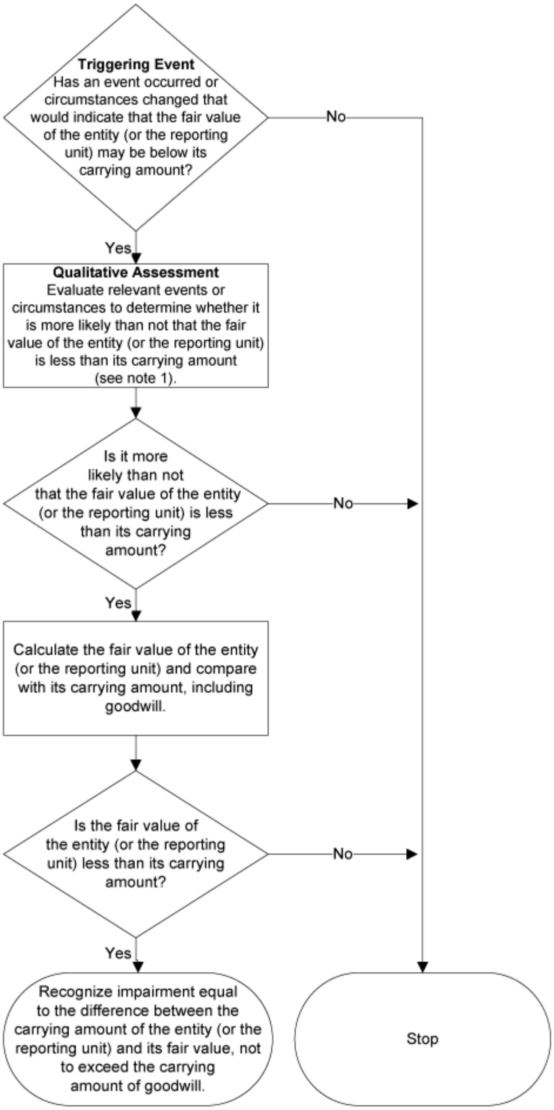
350-20-50-7 The quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) are not required for fair value measurements related to the financial accounting and reporting for goodwill after its initial recognition in a business combination or an acquisition by a not-for-profit entity.

Implementation Guidance and Illustrations

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

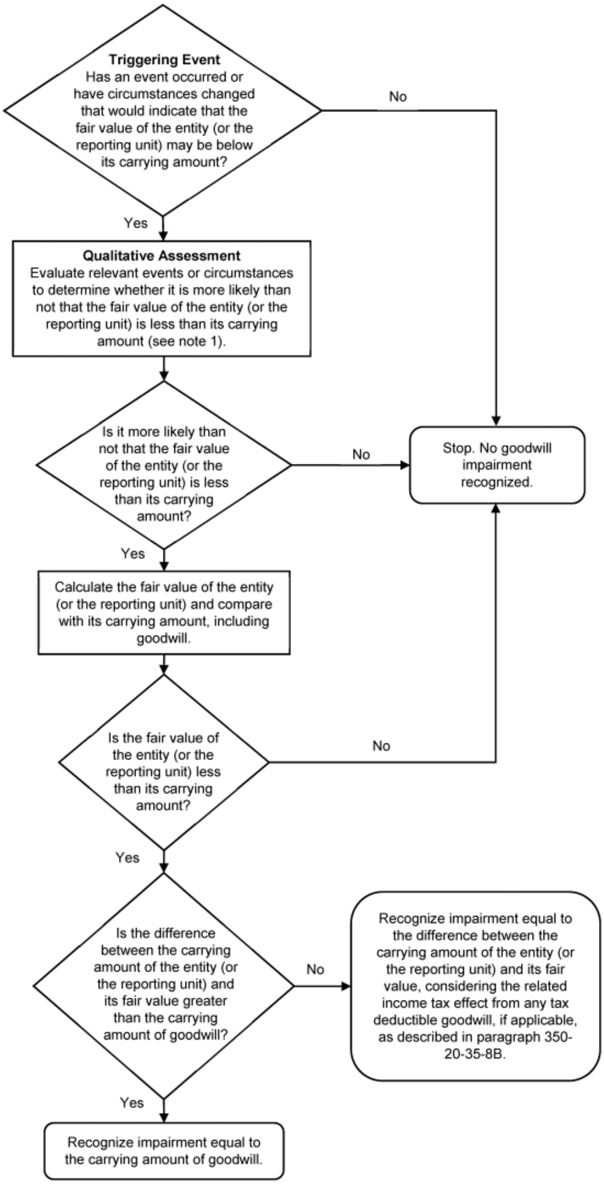
Note 1:

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.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2021* I **Transition Guidance:** 350-20-65-3

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 have 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
Stop. No goodwill impairment recognized.
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
Is the difference between the carrying amount of the entity (or the reporting unit) and its fair value greater than the carrying amount of goodwill?
No
Recognize impairment equal to the difference between the carrying amount of the entity (or the reporting unit) and its fair value, considering the related income tax effect from any tax deductible goodwill, if applicable, as described in paragraph 350-20-35-8B.
Yes
Recognize impairment equal to the carrying amount of goodwill.

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.

9. Add paragraph 350-20-65-4 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2019-XX, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*

350-20-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 2019-XX, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities:*

a. The pending content that links to this paragraph shall be adopted prospectively in annual periods beginning after [date to be inserted after exposure], and interim periods within annual periods beginning after [date to be inserted after exposure].
b. For the guidance in the Accounting Alternative Subsections of Topic 350, the pending content that links to this paragraph shall be effective prospectively for new goodwill recognized in annual periods beginning after [date to be inserted after exposure], and interim periods within annual periods beginning after [date to be inserted after exposure].
c. Goodwill existing as of the beginning of the period of adoption of the pending content that links to this paragraph shall be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if an entity demonstrates that another useful life is more appropriate.
d. Upon adoption of the accounting alternative in Topic 350, an entity shall make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level.
e. For the guidance in the Accounting Alternative Subsections of Topic 805, the decision to adopt the pending content that links to this paragraph must be made upon the occurrence of the first transaction that is identified in paragraph 805-20-15-2 in fiscal years beginning after [date to be inserted after exposure], and the timing of that first transaction determines the effective date of the pending content that links to this paragraph. If the first transaction occurs in the first fiscal year beginning after [date to be

inserted after exposure], the pending content that links to this paragraph shall be effective for that fiscal year's annual financial reporting and all interim and annual periods after [date to be inserted after exposure]. If the first transaction occurs in fiscal years beginning after [date to be inserted after exposure], the pending content that links to this paragraph shall be effective in the interim period that includes the date of the transaction and the subsequent interim and annual periods after [date to be inserted after exposure].

f. Customer-related intangible assets and noncompetition agreements that exist as of the beginning of the period of adoption of the pending content that links to this paragraph in Topic 805 shall continue to be subsequently measured in accordance with Topic 350. That is, existing customer-related intangible assets and noncompetition agreements should not be subsumed into goodwill upon adoption of the pending content that links to this paragraph.

g. Early application for the pending content that links to this paragraph is permitted for any annual or interim period before which an entity's **financial statements are issued** or **financial statements are available to be issued**.

Amendments to Subtopic 323-10

10. Amend paragraph 323-10-35-13, with a link to transition paragraph 350-20-65-4, as follows:

Investments—Equity Method and Joint Ventures—Overall

Subsequent Measurement

> The Equity Method—Overall Guidance

> > Basis Difference

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

Amendments to Subtopic 805-20

11. Amend paragraphs 805-20-15-1A through 15-2, 805-20-15-4, and 805-20-25-1, with a link to transition paragraph 350-20-65-4, as follows:

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

Overview and Background

General

805-20-05-3 The guidance in this Subtopic is presented in the following two Subsections:

a. General
b. Accounting Alternative.

Accounting Alternative

805-20-05-4 The Accounting Alternative Subsections of this Subtopic provide guidance for an entity within the scope of paragraph 805-20-15-2 that elects the accounting alternative for the recognition of identifiable intangible assets acquired in a business combination.

Scope and Scope Exceptions

Accounting Alternative

805-20-15-1A Paragraphs 805-20-15-2 through 15-4 and 805-20-25-29 through 25-33 provide guidance for an entity electing the accounting alternative in this Subtopic. See paragraph 805-20-65-2 for transition guidance <u>for **private companies** and paragraph 350-20-65-4 for transition guidance for **not-for-profit entities**</u> on applying the accounting alternative in this Subtopic.

805-20-15-2 A **{remove glossary link}private company{remove glossary link}** <u>or not-for-profit entity</u> may make an accounting policy election to apply the accounting alternative in this Subtopic. The guidance in the Accounting Alternative Subsections of this Subtopic applies when a private company <u>or not-for-profit entity</u> is required to recognize or otherwise consider the fair value of intangible assets as a result of any one of the following transactions:

a. Applying the acquisition method (as described in paragraph 805-10-05-4 for all entities and Subtopic 958-805 for additional guidance for not-for-profit entities)
b. Assessing the nature of the difference between the carrying amount of an investment and the amount of underlying equity in net assets of an investee when applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures
c. Adopting fresh-start reporting in accordance with Topic 852 on reorganizations.

805-20-15-3 An entity that elects the accounting alternative shall apply all of the related recognition requirements upon election. The accounting alternative, once elected, shall be applied to all future transactions that are identified in paragraph 805-20-15-2.

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

Glossary

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a **not-for-profit entity**, the term **business combination** has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Business Combination

A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

Recognition

General

> Recognition Principle

805-20-25-1 As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 805-20-25-2 through 25-3. However, an entity (the acquirer) within the scope of paragraph 805-20-15-2 may elect to apply the accounting alternative for the recognition of identifiable intangible assets acquired in a business combination as described in paragraphs 805-20-25-29 through 25-33 ~~25-32~~.

Accounting Alternative

805-20-25-29 The guidance in this Subsection applies to entities within the scope of paragraph 805-20-15-2 that elect the accounting alternative for the recognition of identifiable intangible assets acquired in a business combination.

> Identifiable Intangible Assets

805-20-25-30 An **intangible asset** is **identifiable** if it meets either the separability criterion or the contractual-legal criterion described in the definition of identifiable. However, under the accounting alternative, an **acquirer** shall not recognize separately from **goodwill** the following intangible assets:

a. Customer-related intangible assets unless they are capable of being sold or licensed independently from other assets of a business
b. Noncompetition agreements.

805-20-25-31 Customer-related intangible assets often would not meet criterion (a) in paragraph 805-20-25-30 for recognition. Customer-related intangible assets that would meet that criterion for recognition under this accounting alternative are those that are capable of being sold or licensed independently from the other assets of a business. Examples of customer-related intangible assets are listed in paragraph 805-20-55-20. Many of the customer-related intangible assets that would meet criterion (a) for recognition also would be considered contract-based intangible assets as described in paragraph 805-20-55-31. Customer-related intangible assets that may meet that criterion for recognition include but are not limited to:

a. Mortgage servicing rights
b. Commodity supply contracts

c. Core deposits
d. Customer information (for example, names and contact information).

805-20-25-32 Contract assets, as used in Topic 606 on revenue from contracts with customers, are not considered to be customer-related intangible assets for purposes of applying this accounting alternative. Therefore, contract assets are not eligible to be subsumed into goodwill and shall be recognized separately.

805-20-25-33 A **lease** is not considered to be a customer-related intangible asset for purposes of applying this accounting alternative. Therefore, favorable and unfavorable leases are not eligible to be subsumed into goodwill and shall be recognized separately.

Amendments to Subtopic 805-30

12. Amend paragraph 805-30-50-4, with a link to transition paragraph 350-20-65-4, as follows:

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

Disclosure

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

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

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

alternative in Subtopic 350-20 is not required to disclose the reconciliation.

Amendments to Subtopic 958-805

13. Add paragraph 958-805-25-18A, with a link to transition paragraph 350-20-65-4, as follows:

Not-for-Profit Entities—Business Combinations

Recognition

Acquisition by a Not-for-Profit Entity

> Recognizing the Identifiable Assets Acquired, the Liabilities Assumed, and Any Noncontrolling Interest in the Acquiree

958-805-25-18 This Subsection includes the following guidance that is incremental to Subtopic 805-20 for the recognition of identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree:

a. Recognition conditions
b. Classifying or designating identifiable assets acquired and liabilities assumed
c. Additional exceptions to the recognition principle.

958-805-25-18A For guidance on the accounting alternative to subsume certain identifiable intangible assets acquired into goodwill, see Subtopic 805-20 on business combinations—identifiable assets and liabilities, and any noncontrolling interest.

14. Amend paragraph 958-805-35-5, with a link to transition paragraph 350-20-65-4, as follows:

Subsequent Measurement

Acquisition by a Not-for-Profit Entity

> Goodwill Acquired

958-805-35-5 For guidance, including the related accounting alternative, on subsequently measuring goodwill recognized in an acquisition of a business or a nonprofit activity, see Subtopic 350-20.

15. Amend paragraph 958-805-50-17, with a link to transition paragraph 350-20-65-4, as follows:

Disclosure

Acquisition by a Not-for-Profit Entity

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

The amendments in this proposed Update were approved for publication by the unanimous vote of the six members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Marsha L. Hunt
R. Harold Schroeder

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Under Topic 350, a reporting unit's goodwill should be tested for impairment at least annually or more frequently if certain conditions exist. Additionally, an entity has the option first to perform a qualitative assessment to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If the qualitative assessment indicates that it is not more likely than not that the reporting unit's fair value is less than its carrying amount, additional impairment testing is unnecessary. If the qualitative assessment indicates that it is more likely than not that goodwill is impaired, an entity must proceed to step one of the goodwill impairment test and compare the carrying amount, including goodwill, of the reporting unit with its fair value. Entities that have early adopted the amendments in Accounting Standards Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,* calculate the impairment of the reporting unit as the difference between the reporting unit's fair value and carrying amount, limited to the carrying amount of goodwill. Entities that have not early adopted the amendments in Update 2017-04 calculate the amount of the impairment by comparing the implied fair value of the reporting unit's goodwill with its carrying amount. This necessitates performing a hypothetical application of the acquisition method to determine whether the implied fair value of goodwill is less than its carrying amount, after measuring the reporting unit's identifiable assets and liabilities in accordance with Topic 805 and Subtopic 958-805.

BC3. Under Topic 805, an acquirer recognizes assets acquired and liabilities assumed in a business combination or acquisition by a not-for-profit entity at their acquisition date fair values, including all intangible assets that are identifiable. Subtopic 958-805 provides incremental guidance to Topic 805, including additional exceptions to recognizing certain assets, such as donor relationships, collections, and conditional promises acquired. According to the definition in the Master Glossary of the Codification, an asset is *identifiable* if it meets either of the following criteria:

a. It is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.
b. It arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

BC4. In 2014, the Board issued consensuses of the PCC in Updates 2014-02 and 2014-18, which simplify the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets in a business combination described above. Outreach with private company stakeholders indicated that the amendments in Updates 2014-02 and 2014-18 achieved their objective of reducing cost and complexity without significantly diminishing decision-useful information for users of private company financial statements. Private company practitioners indicated that the adoption of the amendments in Update 2014-02 reduced both audit time and audit fees and made valuations less costly and less time-consuming. Practitioners indicated that adoption of the amendments in Update 2014-18 was not as widespread and that private companies indicated that there is not as much benefit to subsuming certain customer-related intangible assets and all noncompetition agreements into goodwill because private companies already perform valuations or engage outside firms to perform valuations upon acquisition. One factor limiting the adoption of these two accounting alternatives by private companies is exit strategy. Some private companies that anticipate being subject to public business entity reporting requirements in the future have chosen not to adopt the alternatives because they may be required to recast prior periods as if the accounting alternatives had not been elected.

BC5. When the Board issued Updates 2014-02 and 2014-18, it acknowledged that the issues the accounting alternatives addressed were not limited to private companies; they also pertained to not-for-profit entities and public business entities. Therefore, the Board added this project to its technical agenda to determine whether the two accounting alternatives allowed for private companies should be extended to not-for-profit entities.

BC6. The Board conducted outreach with not-for-profit stakeholders through various channels, including meetings with (a) the FASB's Not-for-Profit Advisory Committee, (b) the Healthcare Financial Management Association Principles and Practices Board, (c) the American Institute of Certified Public Accountants (AICPA) Health Care Expert Panel, and (d) the AICPA Private Companies Practice Section Technical Issues Committee, whose members also serve not-for-profit entities. Feedback from not-for-profit stakeholders indicated that the benefits of the current accounting for goodwill and certain identifiable assets in a not-for-profit acquisition do not justify the related costs. Outreach with users of not-for-profit financial statements (including lenders and grantors) indicated that they are more interested in a not-for-profit entity's mission, operations, and sustainability, as well as its ability to repay debt, than in valuing a not-for-profit entity similarly to how an analyst values a public business entity. During outreach with preparers and practitioners, the Board heard concerns about the cost and complexity involved in (i) performing the current goodwill impairment test and (ii) valuing identifiable intangible assets in a not-for-profit acquisition.

BC7. The amendments in this proposed Update would provide guidance on (a) an accounting alternative for the subsequent measurement of goodwill and (b) an accounting alternative to not separately recognize certain identifiable intangible assets.

BC8. An entity within the scope of this proposed Update that elects the accounting alternative in Topic 350 would:

a. Amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate
b. Make a policy election to test goodwill for impairment at either the entity level or the reporting unit level
c. Test goodwill for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. When a triggering event occurs, an entity has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity must perform the quantitative test to compare the entity's fair value with its carrying amount, including goodwill (or the fair value of the reporting unit with the carrying amount, including goodwill, of the reporting unit). If the qualitative assessment indicates that it is not more likely than not goodwill is impaired, further testing is unnecessary.

BC9. An entity within the scope of this proposed Update that elects the accounting alternative in Topic 805 would not be required to recognize separately (a) customer-related intangible assets unless they are capable of being sold or licensed separately from the other assets of the business and (b) noncompetition agreements. An entity should continue to follow the applicable requirements in Topics 350 and 805 to account for other aspects relating to identifiable intangible assets that are not specifically referenced in this proposed Update.

BC10. If a not-for-profit entity elects the accounting alternative in Topic 805, it also would adopt the accounting alternative in Topic 350 to amortize goodwill. However, a not-for-profit that elects the accounting alternative in Topic 350 would not be required to adopt the accounting alternative in Topic 805.

BC11. The Board recently added a project to its agenda on the subsequent accounting for goodwill and the accounting for identifiable intangible assets, the scope of which will be determined through an Invitation to Comment. The Board could decide that any amendments developed as part of that project also should apply to not-for-profit entities within the scope of the amendments in this proposed Update. Thus, it is possible that entities electing these alternatives, along with all other entities, could be subject to future changes to the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets. The Board acknowledges that it could have been preferable to address this issue for all entities simultaneously and avoid a potential second change for not-for-profit entities that elect these alternatives. However, to do so would have delayed any relief for not-for-profit entities while the Board works on the broader project.

Basis for Conclusions

Scope

BC12. The Board decided that the scope of the amendments in this proposed Update should be not-for-profit entities as defined in the Master Glossary that engage in acquisition activity and recognize goodwill and certain identifiable intangible assets acquired. The Board chose not to distinguish between public not-for-profit entities and nonpublic not-for-profit entities because the informational needs of users of financial statements of both not-for-profit entity types are the same. Paragraph 30 of FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, states:

> Present and potential users of the information provided by financial reporting by a particular nonbusiness organization share a common interest in information about the services provided by the nonbusiness organization, its efficiency and effectiveness in providing those services, and its ability to continue to provide those services.

Certain users of both public and nonpublic not-for-profit financial statements, lenders, and bondholders also are interested in a not-for-profit's ability to repay debt. Few, if any, users are interested in valuing an entity in the way equity holders of business entities would.

BC13. To achieve comparability among not-for-profit entities that elect to apply the accounting alternative in Topic 350, the Board decided that the subsequent measurement, derecognition, other presentation matters, and disclosure requirements would be applied together and not individually. The Board also decided that this accounting alternative, if elected, would apply to all existing goodwill and all new goodwill recognized after the effective date. To achieve comparability among not-for-profit entities that elect to apply the accounting alternative in Topic 805, the Board decided that the recognition requirements would be applied together, as well. That is, adopting this accounting alternative would require a not-for-profit entity to no longer recognize both certain customer-related intangible assets and noncompetition agreements. The Board decided that this accounting alternative, if elected, would apply to all in-scope transactions entered into after the adoption date.

Subsequent Accounting for Goodwill

BC14. Goodwill arises in not-for-profit entities from two general types of transactions—(a) acquisition of a for-profit entity, for example, a health care system acquiring a physician practice, and (b) acquisition of a financially troubled not-for-profit entity (net deficit acquisition) for which the combined entities will operate predominantly with fee-for-service revenues. The first type of transaction primarily occurs in the not-for-profit health care industry and creates goodwill similar to that of business entities. Feedback from not-for-profit stakeholders indicated that most goodwill in not-for-profit entities stems from those transactions. The second type of transaction occurs both in the health care industry and in other industries in which goodwill is less prevalent. Because not-for-profit acquirees lack the type of ownership interests that business entities have, negotiations in those types of acquisitions generally focus on the furtherance of the mission, governance, and programs of the entity for the benefit of the public, rather than on maximizing returns for equity holders. They are typically not commensurate value exchanges but rather nonreciprocal transfers that, when the fair value of the identifiable assets exceed the fair value of the liabilities (generally the case), constitute an inherent contribution received by the acquirer. In instances in which the fair value of the liabilities exceeds the fair value of the assets (net-deficit acquisitions), the goodwill recognized, according to some stakeholders, is conceptually different from that of business entities.

BC15. Users of not-for-profit financial statements indicated that they often disregard goodwill because they do not value entities the way many users of public business entity financial statements do and because they are more interested in a not-for-profit's mission, efficiency, and ability to repay debt. Preparers and practitioners noted that many not-for-profit entities do not have the expertise to value goodwill internally and that many preparers are still familiar with goodwill amortization because they adopted the goodwill impairment model in 2009 with the issuance of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. While FASB Statement No. 142, *Goodwill and Other Intangible Assets,* eliminated goodwill amortization and introduced the impairment model in 2001, it was not fully applicable to not-for-profit entities until the amendments in Statement 164 were issued. Preparers and practitioners in the health care industry noted that Medicare cost reporting allows a goodwill amortization period of up to 15 years.

BC16. Not-for-profit stakeholders supported both testing for impairment upon a triggering event and the accounting policy option to test for impairment at the entity level. Not-for-profit entities currently apply the interim guidance to test for impairment 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, and preparers noted that removing the annual test and only testing upon a triggering event would result in significant time savings. Practitioners and preparers in the health care industry noted that in practice many health care not-for-profit entities already test for impairment at the entity level, based on their structure. Stakeholders of large health care not-for-profit entities with many reporting units supported having the option to test for impairment at the entity level, rather than requiring it.

BC17. Stakeholders indicated that they face similar concerns and challenges as private company stakeholders face about subsequently accounting for goodwill. On the basis of this feedback, the Board decided to extend the amendments on amortizing goodwill and simplifying the impairment test to not-for-profit entities.

Accounting for Certain Identifiable Intangible Assets in a Business Combination or an Acquisition by a Not-for-Profit Entity

BC18. Feedback from not-for-profit stakeholders indicated that intangible asset balances from acquisitions often are not material for not-for-profit entities and that stakeholders are more interested in the existence rather than the value of those intangible assets. While noncompetition agreements are not uncommon, practitioners noted that there are few customer-related intangible assets in either health care not-for-profit entities or other not-for-profit entities. Additionally, practitioners indicated that within the not-for-profit health care industry few customer-related intangible assets could meet the criteria to be licensed or sold separately from other assets of a not-for-profit because of existing health care privacy regulations. Outreach indicated that the decision usefulness of separately accounting for such relationships is limited and that users of not-for-profit financial statements are less interested in the intangible assets. Instead, users focus their analyses on the operations and sustainability of the not-for-profit entity and its ability to repay debt.

BC19. Feedback from not-for-profit stakeholders indicated that they face similar concerns as private company stakeholders face that the benefits of the accounting for certain identifiable intangible assets in an acquisition by a not-for-profit entity do not justify the related costs. Feedback from stakeholders also indicated that adoption rates of the accounting alternatives likely would be high because not-for-profit entities do not have the same forward-looking exit strategy concerns that prevent certain private companies from adopting the accounting alternatives. On the basis of this feedback, the Board decided to extend the accounting alternative to subsume into goodwill and amortize all noncompetition agreements and certain identifiable intangible assets to not-for-profit entities.

Effective Date and Transition

BC20. The Board decided that the transition methods for the guidance on each accounting alternative would be the same as the previous transition methods for private companies. That is, the guidance on the accounting alternative in Topic 350 would be applied prospectively for new goodwill recognized in annual periods after the effective date, which is yet to be determined. Goodwill existing as of the beginning of the period of adoption would be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if a not-for-profit entity demonstrates that another useful life is more appropriate.

BC21. The guidance on the accounting alternative in Topic 805 should be applied prospectively for all in-scope transactions entered into after the effective date with no option to apply it retrospectively. Under this accounting alternative, an entity should continue to recognize and measure customer-related intangible assets and noncompetition agreements that exist as of the period of adoption in accordance with Topic 350. The decision to adopt this accounting alternative in Topic 805 must be made upon the occurrence of the first transaction within the scope of this accounting alternative after the effective date, which is yet to be determined.

BC22. After issuing Updates 2014-02 and 2014-18, the Board issued Update 2016-03, which removed the effective dates of those (and two other) Updates and provided private companies with an unconditional one-time election to apply the alternatives. The unconditional one-time-election refers to the amendments that allow private companies to forgo a preferability assessment the first time they elect the private company accounting alternatives. As part of its decision, the Board considered that some private companies could face obstacles in gaining the cost relief of the alternatives because of changing exit strategies and circumstances. For example, a company not initially electing an alternative, in anticipation of an initial public offering (IPO) or acquisition by a public business entity, might wish to do so if the company ends up having to abandon that exit strategy because of a significant downturn in the market for IPOs or merger-and-acquisition activity. If that abandonment were to occur after the effective dates of Updates 2014-02 and 2014-18, the election would have been considered a voluntary change in accounting principle under Topic 250, Accounting Changes and Error Corrections. In that instance, the company would have had to demonstrate that the alternative is preferable and would have had to apply the provisions of the alternative retrospectively.

BC23. The Board believes that not-for-profit entities rarely have those exit strategy considerations. However, the Board will determine the effective date after it considers stakeholders' feedback on the amendments in this proposed Update.

Benefits and Costs

BC24. 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 or other residual claimants of the entity. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative.

BC25. The Board anticipates that the proposed amendments in this Update would reduce the costs of subsequently accounting for goodwill and accounting for certain identifiable intangible assets by providing relief to stakeholders in areas of guidance that are complex for not-for-profit entities to apply in practice and that do not provide incremental benefits to users of not-for-profit financial statements. The Board decided that these accounting alternatives would decrease cost and complexity in current GAAP without significantly changing the usefulness of the information provided to users of not-for-profit financial statements. The Board acknowledges that not-for-profit entities could incur incremental costs if they choose to justify a goodwill amortization period less than 10 years. However, choosing not to use the prescribed 10 years would be voluntary; therefore, costs may be incurred but are not imposed.

Amendments to the XBRL Taxonomy

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