FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: May 12, 2016
Comments Due: July 11, 2016

Intangibles—Goodwill and Other (Topic 350)

Simplifying the Accounting for Goodwill Impairment

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 350 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2016-230, 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 July 11, 2016. 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. 2016-230
- Sending a letter to "Technical Director, File Reference No. 2016-230, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

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

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

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Proposed Accounting Standards Update

Intangibles—Goodwill and Other (Topic 350)

Simplifying the Accounting for Goodwill Impairment

May 12, 2016

Comment Deadline: July 11, 2016

CONTENTS

Page Numbers

Summary and Questions for Respondents

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

The Board recently amended the 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 from private companies and their stakeholders about the cost and complexity of the current 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-profits. The Board subsequently separated the project into two phases. The objective of Phase 1 of the project, which resulted in this proposed Update, is to simplify how an entity is required to test goodwill for impairment by removing Step 2 from the goodwill impairment test.

In the future phase of the project, the Board expects to consider whether to make additional changes to the subsequent accounting for goodwill, including consideration of permitting or requiring amortization of goodwill and/or further changes to the impairment testing methodology.

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

The amendments in this proposed Update would apply to all entities that have goodwill reported in their financial statements except private companies that have elected the private company alternative for the subsequent measurement of goodwill.

What Are the Main Provisions?

To simplify the subsequent measurement of goodwill, the Board proposes to remove Step 2 from the current goodwill impairment test, which includes determining the implied fair value of goodwill and comparing it with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity must 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 a purchase price allocation for an acquired business.

Instead, under the proposed amendments, an entity would perform its annual, or any interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity generally would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. However, that amount should not exceed the carrying amount of goodwill allocated to that reporting unit. An entity would still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The Board also proposes to remove 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 would apply to all reporting units. An entity would be required to disclose the existence of any reporting units with zero or negative carrying amounts and the amount of goodwill allocated to those reporting units.

This proposed Update also includes amendments to the Overview and Background Sections of the Accounting Standards 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.

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

The amendments in this proposed Update would 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 would not 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 remove Step 2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment.

When Would the Amendments Be Effective?

The proposed amendments to eliminate Step 2 from the current goodwill impairment test would be applied on a prospective basis. An entity would be required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure would be provided in the first annual period after the entity's adoption date and in the interim periods within the first annual period.

The effective date, as well as whether early adoption would be permitted for the one-step impairment test, will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.

Questions for Respondents

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

Question 1: Do you agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test? Why or why not?

Question 2: Should the requirement to perform Step 2 of the current goodwill impairment test be retained as an option? Why or why not? If the use of Step 2 is optional, should an entity be allowed to apply that option by reporting unit or should it be a policy election at the entity level applicable to all reporting units?

Question 3: Do you agree with the proposed amendments to require all entities to apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts? Why or why not? If not, what would be the suggested goodwill impairment test for reporting units with zero or negative carrying amounts?

Question 4: Should entities with reporting units with zero or negative carrying amounts be required to disclose the existence of those reporting units and the amount of goodwill allocated to them? Why or why not? Are there additional disclosures that would provide useful information to users of financial statements?

Question 5: Should 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 Example 1 and Example 2 be retained, or should this Subtopic rely on the fair value guidance in Topic 820, Fair Value Measurement? If the guidance on the tax structure is retained, what, if any, amendments are necessary to address the potential difference in the impairment charge calculated under the proposed amendments, depending on which tax structure is used in calculating the fair value of the reporting unit?

Question 6: Do you agree that the proposed guidance to remove Step 2 from the goodwill impairment test should be applied prospectively? Should there be specific transition guidance for companies that previously adopted the goodwill accounting alternative for private companies in current GAAP but decide to adopt this proposed guidance after it becomes effective?

Question 7: How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

Question 8: Would the proposed amendments meet the Board's objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of financial statements? Why or why not?

Question 9: Are there additional changes that should be made to the subsequent accounting for goodwill to meet this objective, including changes that might be considered in Phase 2 of the Board's project?

Question 10: Are there any unintended consequences resulting from the improvements to the Overview and Background Sections of the Subtopics (discussed in Part II of the proposed amendments)?

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**
Part I	Amendments Related to the Subsequent Measurement of Goodwill
Intangibles—Goodwill and Other—Goodwill—Subsequent Measurement (350-20-35)	• Removed guidance on Step 2 of the goodwill impairment test, including the guidance on the implied fair value of goodwill • Removed guidance specific to testing for impairment for entities with reporting units with zero or negative carrying amounts
Derecognition (350-20-40)	• Amended references to paragraphs superseded because of the proposed amendments
Disclosure (350-20-50)	• Added disclosure of reporting units with zero or negative carrying amounts and the amount of goodwill allocated to those reporting units
Implementation Guidance and Illustrations (350-20-55)	• Amended examples of the goodwill impairment test to remove guidance on Step 2 of the goodwill impairment test • Amended disclosure example to illustrate the disclosures for entities with one or more reporting units with zero or negative carrying amounts
Intangibles—Goodwill and Other—General Intangibles	• Removed references to paragraphs superseded because of the proposed amendments

Codification Section	Description of Changes
Other Than Goodwill—Subsequent Measurement (350-30-35)	
Part II	Amendments Related to the Overview and Background Sections of Topic 350
Intangibles—Goodwill and Other—Overall—Overview and Background (350-10-05)	• Reorganized information to unify and improve the Section
Intangibles—Goodwill and Other—Goodwill—Overview and Background (350-20-05)	• Reorganized information to unify and improve the Section • Included additional paragraphs summarizing the guidance
Scope and Scope Exceptions (350-20-15)	• Reorganized information to unify and improve the Section • Included additional paragraphs summarizing the guidance
Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill—Overview and Background (350-30-05)	• Included additional paragraphs summarizing the guidance
Intangibles—Goodwill and Other—Internal-Use Software—Overview and Background (350-40-05)	• Removed paragraphs that included information redundant with the authoritative guidance • Reorganized information to unify and improve the Subtopic

Codification Section	Description of Changes
Scope and Scope Exceptions (350-40-15)	• Reorganized information to unify and improve the Subtopic
Recognition (350-40-25)	• Reorganized information to unify and improve the Subtopic
Software—Costs of Software to Be Sold, Leased, or Marketed—Relationships (985-20-60)	• Amended references to paragraphs superseded because of the proposed amendments

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–8, which are related to the subsequent measurement of goodwill, and in paragraphs 9–17, which are related to the Overview and Background Sections of Topic 350. The amendments in this proposed 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 <u>underlined</u>, and deleted text is ~~struck out~~.

Part I—Amendments Related to the Subsequent Measurement of Goodwill

Amendments to Subtopic 350-20

3. Amend paragraphs 350-20-35-1 through 35-3, 350-20-35-3B through 35-4 and the related heading, 350-20-35-6, 350-20-35-8, 350-20-35-30, and 350-20-35-57A and 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

> 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~~goodwill~~ exceeds its ~~implied~~ fair value. A goodwill impairment loss generally is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value. However, the loss recognized shall not exceed the total amount of goodwill allocated to that reporting unit.~~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 or its customer 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 generally shall be recognized in an amount equal to that excess; however, the amount of the loss recognized is limited to the carrying amount of goodwill allocated to that reporting unit~~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. 2016-XX.~~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.~~

~~> > Step 2~~

350-20-35-9 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~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 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~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 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~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 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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

350-20-35-22 The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. However, the market price of an individual equity security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit as a whole.

350-20-35-23 Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual equity securities. An acquiring entity often is willing to pay more for equity securities that give it a controlling interest than an investor would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of a reporting unit to exceed its market capitalization. The quoted market price of an individual equity security, therefore, need not be the sole measurement basis of the fair value of a reporting unit.

350-20-35-24 In estimating the fair value of a reporting unit, a valuation technique based on multiples of earnings or revenue or a similar performance measure may be used if that technique is consistent with the objective of measuring fair value. Use of multiples of earnings or revenue in determining the fair value of a reporting unit may be appropriate, for example, when the fair value of an entity that has comparable operations and economic characteristics is observable and the relevant multiples of the comparable entity are known. Conversely, use of multiples would not be appropriate in situations in which the operations or activities of an entity for which the multiples are known are not of a comparable nature, scope, or size as the reporting unit for which fair value is being estimated.

> > 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 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

350-20-35-30 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

> 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~~ 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.

4. 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 ~~35-19~~35-13 using its adjusted carrying amount.

5. Amend paragraphs 350-20-50-1 through 50-2 and add paragraphs 350-20-50-1A through 50-1B, 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.~~ **[Content amended and moved to paragraph 350-20-50-1B]**

350-20-50-1A Entities that have one or more reporting units with zero or negative carrying amounts shall identify those reporting units and disclose the amount of goodwill allocated to each.

350-20-50-1B Entities that report segment information in accordance with Topic 280 shall provide the ~~above~~ information about goodwill in paragraphs 350-20-50-

1 through 50-1A 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. **[Content amended as shown and moved from paragraph 350-20-50-1]**

> 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. 2016-XX.~~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.~~

6. Amend paragraphs 350-20-55-12 through 55-16 and 350-20-55-19 through 55-26, with a link to transition paragraph 350-20-65-3, as follows:

Implementation Guidance and Illustrations

> Illustrations

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

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 ~~value~~amount 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 ~~value~~amount of Reporting Unit~~goodwill~~ of $90~~$40~~ compared to its ~~implied~~ fair value of $80)~~$27)~~ 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

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 ~~value~~amount 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 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 ~~value~~amount of Reporting Unit~~goodwill~~ of $90~~$40~~ compared to its~~ implied~~ fair value of $80)~~$15)~~ because the $10 impairment loss does not exceed the $40 carrying amount of the goodwill allocated to Reporting Unit.

> > 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.

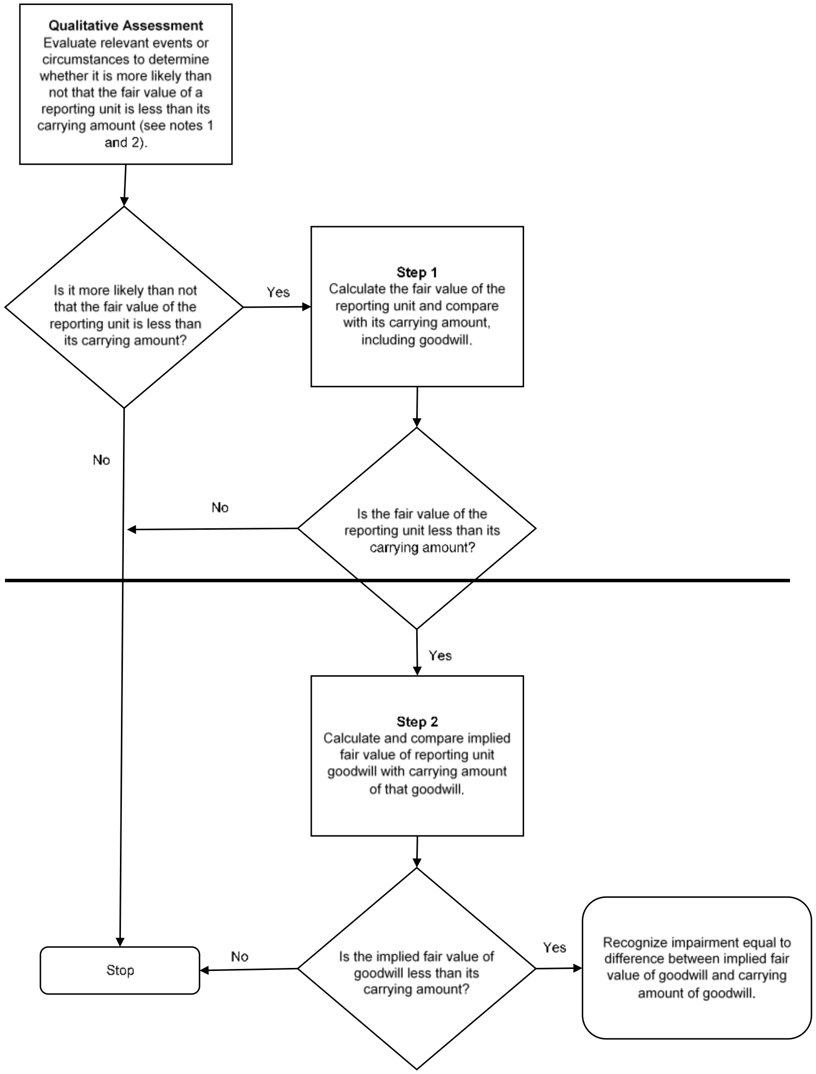
($000s)	Technology Segment	Communications Segment	Total
Balance as of January 1, 20X3			
Goodwill	$ 1,413	$ 1,104	$ 2,517
Accumulated impairment losses	-	(200)	(200)
	~~1,143~~ 1,413	904	2,317
Goodwill acquired during year	189	115	304
Impairment losses	-	(46)	(46)
Goodwill written off related to sale 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.

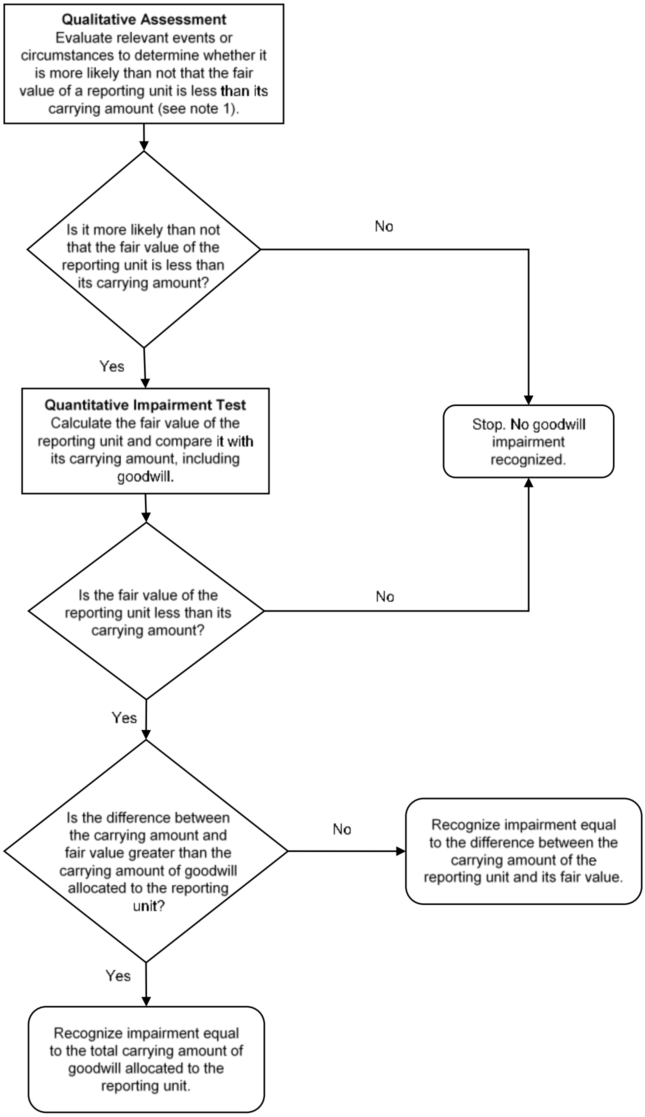
The Electronics reporting unit to which $498 of goodwill is allocated had a negative carrying amount on December 31, 20X3, and 20X2. This reporting unit is part of the Technology segment.

> > 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:~~

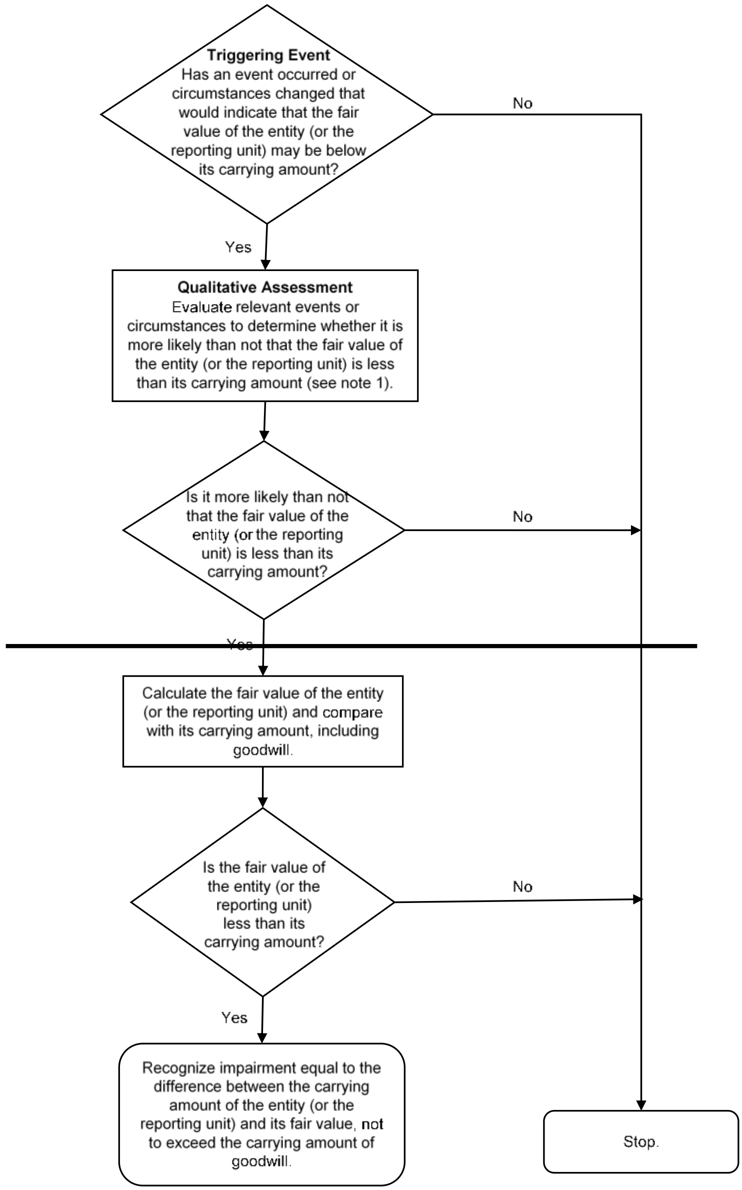
1. An entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the reporting unit and comparing that value with its carrying amount, including goodwill~~performing Step 1, except in the circumstance where a reporting unit has a carrying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

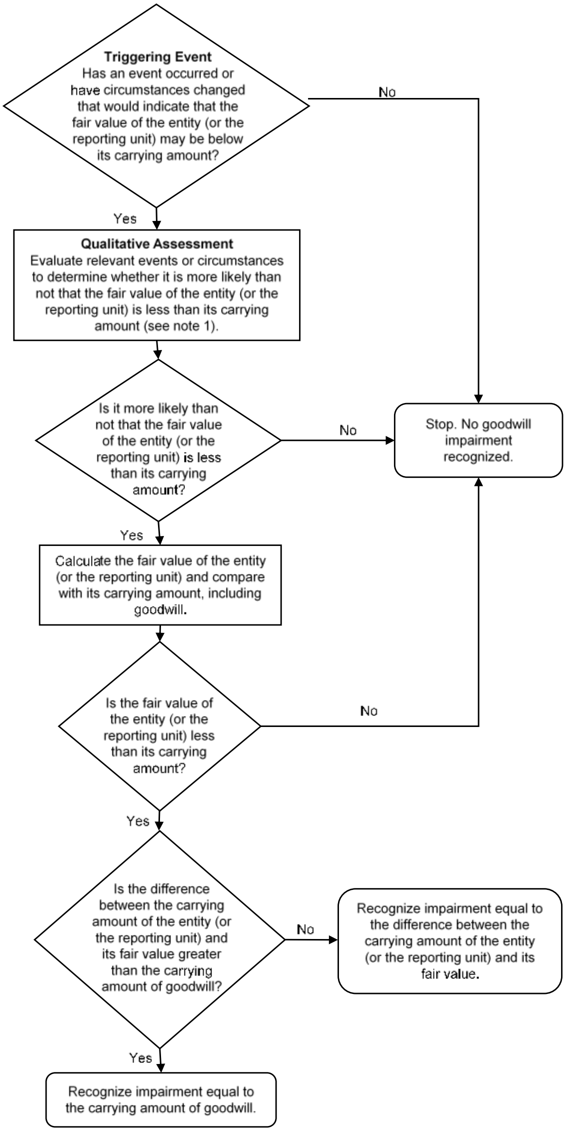
Accounting Alternative

> 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 compare that value with its carrying amount, including goodwill.

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

> Transition Related to Accounting Standards Update No. 2016-XX, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment.*

350-20-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-XX, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment:*

a. The pending content that links to this paragraph shall be effective for annual periods, and interim periods within those annual periods, beginning after the effective date [date to be inserted after exposure].
b. An entity shall apply the pending content that links to this paragraph prospectively.

Amendments to Subtopic 350-30

8. 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. <u>Subparagraph superseded by Accounting Standards Update No. 2016-XX.</u>~~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

9. As part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics, the amendments in this proposed 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 proposed 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

10. Amend paragraphs 350-10-05-1 and 350-10-05-3, add paragraph 350-10-05-3A, and supersede paragraphs 350-10-05-2 and 350-10-05-4 through 05-7, 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,~~ <u>**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</u>

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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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.
c. General Intangibles Other Than 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 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 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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~Subtopic 350-50 provides guidance on accounting for costs incurred to develop a website.~~

Amendments to Subtopic 350-20

11. 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. 2016-XX.~~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.

12. 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~~While 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

13. 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 the financial statements.

Amendments to Subtopic 350-40

14. Amend paragraph 350-40-05-1, add paragraphs 350-40-05-1A through 05-1B, and supersede paragraphs 350-40-05-3 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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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. 2016-XX.~~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 amended and moved to paragraph 350-40-25-7]**

15. 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 350-40-45-2A 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.

16. 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 also may ~~also~~ require a change to all or part of the existing software specifications. **[Content amended as shown and 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

17. 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~~.

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

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this 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. 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). 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. Under Subtopic 350-20, goodwill is not amortized but is tested for impairment at least annually.

BC3. Under current GAAP, Step 1 of the goodwill impairment test requires an entity to compare the fair value of a reporting unit with its carrying amount, including goodwill, to determine if an impairment exists. If the carrying amount exceeds the fair value of the reporting unit, an entity should perform Step 2 of the goodwill impairment test. Step 2 includes determining the implied fair value of goodwill and comparing it with the carrying amount of that goodwill. If a reporting unit has a zero or negative carrying amount, the entity should perform a qualitative assessment for that reporting unit to determine whether it is more likely than not that goodwill is impaired. If so, the entity should perform Step 2 to determine if an impairment exists 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, due to 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 companies 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 current quantitative impairment test.

BC6. The Private Company Council was established in 2012 to improve the standard-setting process for private companies, and one of the Private Company Council's initial projects was to further address the subsequent accounting for goodwill for private companies. The Private Company Council 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 Private Company Council 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 proposed Update, is to simplify the current goodwill impairment test. In the future phase of the project, the Board will consider whether to make additional changes to the goodwill accounting model.

BC10. The amendments in this proposed 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.

Basis for Conclusions

BC11. The Board considered whether the entire private company alternative should be applied to all entities. However, in light of 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. 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 removing Step 2 would 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 in light of the Post-Implementation Review on FASB Statement No. 141 (revised 2007), *Business Combinations* (Statement 141(R)), 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. 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. The amendments in this proposed Update to remove Step 2 from the goodwill impairment test under Topic 350 will more closely align 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 decided 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.

Subsequent Measurement

BC16. One Board member believes that the use of Step 2 of the current goodwill impairment test should be made optional instead of removed in its entirety. The option would enable those who willingly choose to incur the cost of carrying out Step 2 of the goodwill impairment test to do so. Some Board members felt that making Step 2 of the goodwill impairment test optional would be less effective in reaching the objective of simplifying the goodwill impairment test. The Board noted that introducing optionality in the method of calculating an impairment loss may decrease comparability.

BC17. The Board member supporting an optional Step 2 noted that an option also may benefit the reporting units that might fail Step 1 of the test but pass

Step 2 under the current guidance. Some Board members observed that one factor that could cause a reporting unit to fail Step 1 but pass Step 2 is a difference in the goodwill impairment test in Topic 350 and the test for other long-lived assets in Topic 360, Property, Plant, and Equipment. While the impairment tests for intangible assets and other long-lived assets should be considered before calculating any goodwill impairment, there is an inconsistency between those tests.

BC18. Long-lived assets are tested for impairment using a two-step test. Step 1 is used to determine if the asset is recoverable on the basis of undiscounted cash flows. The entity would perform Step 2 and compare the asset's carrying amount with its fair value only if the asset is not recoverable. This could result in an entity not recognizing an impairment because the asset's carrying amount is recoverable, even if that carrying amount exceeds the asset's fair value. The reporting unit to which the asset is assigned could, therefore, potentially fail Step 1 of the goodwill impairment test but pass Step 2.

Reporting Units with Zero or Negative Carrying Amounts

BC19. Current GAAP requires a qualitative assessment to determine whether it is more likely than not that goodwill is impaired for any reporting unit with a zero or negative carrying amount. If goodwill impairment is indicated as a result of the qualitative analysis, an entity must 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.

BC20. With the removal of 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. Research indicated that the population of reporting units with zero or negative carrying amounts was relatively small. Accordingly, the Board found that weighing the benefits and costs of various accounting models for assessing impairment of goodwill of such reporting units was difficult, especially given the simplification objective of the project. Research also indicated that in the few cases in which the staff was able to identify reporting units with zero or negative carrying amounts, the majority did not report any impairment under current GAAP.

BC21. The Board discussed the subsequent accounting for goodwill for reporting units with zero or negative carrying amounts at length and considered several different options. The Board deliberated whether, for reporting units with zero or negative carrying amounts, an entity should:

- Continue to perform Step 2
- Write off goodwill
- Prescribe the way the carrying amount is calculated to exclude certain nonoperating amounts.

BC22. The Board ultimately rejected these alternatives in favor of requiring the application of the one-step impairment test for all reporting units. Under a one-step impairment test, reporting units with zero or negative carrying amounts would likely pass the simplified goodwill impairment test because the fair value of a reporting unit generally would not be negative. However, entities are not currently required to disclose the existence of these reporting units.

BC23. To address this lack of transparency, the Board decided to require the disclosure of the existence of any reporting units with zero or negative carrying amounts and the amounts of goodwill allocated to them. These disclosures may provide useful information to users of the financial statements because these reporting units may not record an impairment charge under the quantitative impairment test.

BC24. Some Board members believe that requiring the one-step impairment test for all reporting units would result in the most consistent and least complex test. Those members also noted 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 result in vastly different impairment charges.

BC25. Other Board members believe that the one-step impairment test would allow certain reporting units to carry goodwill indefinitely, even if the conditions underlying the reporting unit indicate that goodwill was impaired, and supported writing off goodwill allocated to reporting units with zero or negative carrying amounts.

BC26. The Board recognized that under a one-step impairment test, there could be reporting units that would not recognize a charge for goodwill that is impaired and that under the writeoff model, there could be reporting units that would write off goodwill even though it is not impaired.

BC27. The Board also discussed whether a qualitative assessment should be performed before writing off any goodwill. The Board acknowledged 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 does not believe that the qualitative assessment in the current guidance for reporting units with zero or negative carrying amounts is relevant because it relies on the concepts of goodwill impairment that are included in Step 2 of the current goodwill impairment test.

BC28. 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 would 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 would indicate otherwise is impractical.

BC29. 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.

BC30. 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 increase cost and complexity, but they acknowledge that attempting to rebut the presumption would not be mandatory and would not increase costs in all 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.

Allocating Assets and Liabilities to Reporting Units

BC31. The Board also considered whether the guidance should prescribe the method for allocating assets and liabilities to reporting units as follows:

a. 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.

BC32. Some Board members thought that the IAS 36 model might exclude some liabilities that were relevant to an impairment assessment. Some Board members also thought that the "enterprise premise" might be difficult to apply given various interpretations of what constitutes a financing liability and pointed out that this approach is not precluded under current guidance.

BC33. Some Board members were concerned that entities could manipulate the allocation of assets and liabilities to reporting units in order to avoid impairment charges. The guidance on determining the carrying amount of a reporting unit allows for significant judgment; however, it does require that the elements of a reporting unit be the same for the determination of both its carrying amount and its fair value and that the methodology be consistently applied.

BC34. The Board noted that the amendments included in this proposed Update should not 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. The Board emphasized that the allocation of assets and liabilities to reporting units should not be viewed as an opportunity to avoid impairment charges.

BC35. Current guidance in paragraph 350-20-35-7 requires an entity 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. This guidance would not be affected by the proposed Update. In Step 2 of the current guidance, which requires a hypothetical purchase price allocation, deferred income taxes are not calculated in the allocation when a taxable transaction is assumed, but are calculated when a nontaxable transaction is assumed. 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.

BC36. The amendments in this proposed Update remove Step 2. Consequently, once a reporting unit fails Step 1 of the quantitative test, the impairment amount under an assumed taxable transaction would generally 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 proposed 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.

Effective Date and Transition

BC37. The Board decided that the proposed amendments should be applied prospectively from the date of adoption. The Board does not believe that prospective application would result in the loss of comparability across periods. The Board also believes that requiring retrospective application would reduce the cost savings associated with the proposed changes.

BC38. The Board will determine the effective date and whether early adoption should be permitted after it considers stakeholder feedback on the proposed Update.

BC39. The Board discussed whether a private company that previously adopted the accounting alternative could apply the guidance in this proposed Update. The Board noted that in that scenario, the private company would follow the preferability guidance for accounting changes in Topic 250, Accounting Changes and Error Corrections.

Benefits and Costs

BC40. 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.

BC41. The Board anticipates that the amendments in this proposed Update would 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 believes that these simplifications would 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

BC42. To provide conformity in information and content, the Board is updating the Overview and Background Sections of the Accounting Standards Codification. The Board will expose changes to these Sections in conjunction with proposed 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 proposed Update. The changes should not affect the related guidance in these Subtopics.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through ASU Taxonomy Changes provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at www.fasb.org and finalized as part of the annual release process.