APRIL 22, 2011

FASB In Focus

Proposed Accounting Standards Update: *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

Why Has the FASB Issued This Proposed Accounting Standards Update (Update)?

In October and November of 2010, the FASB held roundtables to discuss the concerns of private company constituents. During those roundtables and in other sessions, preparers of private company financial statements expressed concerns to the FASB about the recurring cost and complexity of performing the first step of the two-step goodwill impairment test required under Topic 350, Intangibles—Goodwill and Other.

Goodwill impairment occurs when the implied fair value of goodwill in an entity's reporting unit declines to an amount that is less than its carrying amount. Current guidance under Topic 350 requires an entity to test goodwill for impairment, at least annually, using a two-step process. In step one of the test, an entity is required to calculate the fair value of a reporting unit and compare the fair value with the carrying amount of the reporting unit, including goodwill. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any.

A number of preparers from private companies recommended that the FASB consider allowing an entity to use a qualitative approach for testing goodwill for impairment to help reduce the cost and complexity associated with performing the current quantitative approach.

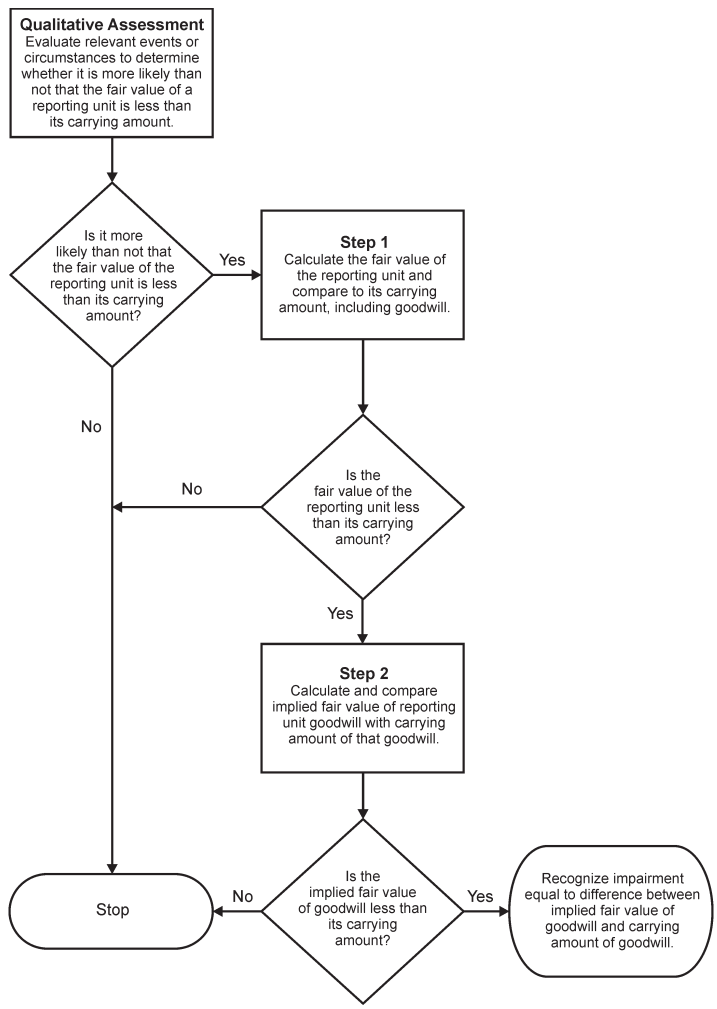
What Would This Proposed Update Do?

The amendments in this proposed Update are intended to reduce complexity and costs by allowing an entity (public or nonpublic) to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. Specifically, an entity would have the option of first assessing qualitative factors (events and circumstances) to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount.

If, after considering all relevant events and circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test would be unnecessary. If the entity concludes that the opposite is true, then it would be required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit as explained in current guidance. If the carrying amount of a reporting unit exceeds its fair value, then the entity would be required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the proposed Update, an entity may choose to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step test.

The proposed Update also would expand upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Similarly, the proposed amendments would improve the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount would consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test.

The following chart illustrates the proposed optional qualitative assessment and the two-step goodwill impairment test. Note that an entity having a reporting unit with a zero or negative carrying amount would not perform Step 1 of the test.



The amendments in this proposed Update would not change how an entity measures a goodwill impairment loss. Therefore, the proposed Update is not expected to affect the information reported to users of financial statements.

What Kinds of Feedback Is the Board Looking for by Issuing This Proposed Update?

The Board encourages individuals and organizations to comment on all aspects of this proposed Update. The Board is especially interested in knowing:

- If constituents think the proposed amendments will reduce overall costs and complexity compared with existing guidance;
- If constituents think the qualitative approach for testing goodwill would delay the recognition of goodwill impairment losses or affect how users evaluate goodwill reported in the financial statements;
- If constituents think the guidance in the proposed amendments about how an entity should assess relevant events or circumstances is clear;
- If constituents agree with the Board's decision to make the proposed amendments applicable to both public entities and nonpublic entities, and if they agree with the proposed effective date.

How Can One Comment on This Proposed Update?

The FASB is piloting a new electronic constituent feedback form that makes it even easier to provide comments. Those wishing to send comments on this project through the electronic constituent feedback form can find that document by visiting www.fasb.org (Projects tab/Technical Plan and Project Updates page).

Alternatively, constituents can submit written comments in the form of a letter by emailing it to director@fasb.org, File Reference No. 2011-180. Those without email should send their comments to "Technical Director, File Reference No. 2011-180, FASB, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116."

Written comments on this proposed Update must be received by June 6, 2011.

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FASB In Focus *has been prepared as a summary of the proposed Accounting Standards Update. The views expressed in this document do not necessarily reflect the views of the FASB. Official positions of the FASB are arrived at only after extensive due process and deliberation.*