FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

November 17, 2021

Meeting and Memo Purpose

1. The purpose of the November 17, 2021 Board meeting is to present research and analysis related to the amortization period and the reassessment of the amortization period for the subsequent accounting for goodwill.

2. This handout is organized as follows:

   (a) Amortization Period—Estimation Model, Factors, Cap, and Floor

   (b) Amortization Period—Reassessment

   (c) Appendix A: Factors.

Questions for the Board
Amortization Period **Topic 1: Overall Estimation Model** 1. Does the Board want to: a. Provide an open list that would include some factors while allowing management to consider other factors not listed if they are applicable to the business combination b. Allow multiple factors to be used for estimating the amortization period c. Include an overall principle for estimating a goodwill amortization period? **Topic 2: Selection of Factors** 2. If the Board prefers to provide a list of factors to estimate the goodwill amortization period, which factors does the Board prefer to include on the list? 3. If the Board wants to include a discounted payback period method as a factor on the list (Factor B from Appendix A), what recovery threshold does the Board to want to use, if any? 4. If the Board wants to include expected synergies on the list (Factor D from Appendix A), does the Board want to provide a constraint to prevent entities from analogizing to indefinite-lived factors?

Topic 3: Cap or Floor on an Estimated Amortization Period

5. Does the Board want to impose a cap on an estimated goodwill amortization period? If so, what cap does the Board prefer?

6. Does the Board want to impose a floor on the estimated goodwill amortization period? If so, what floor does the Board prefer?

Topic 4: Amortization Period Reassessment

7. Which alternative does the Board prefer:

Alternative 1: Prohibit all reassessments of the goodwill amortization period

Alternative 2: Require reassessment in certain defined circumstances?

8. If the Board prefers to require reassessment in certain defined circumstances, under what circumstances would the Board prefer to require reassessment?

Amortization Period—Estimation Model, Factors, Cap, and Floor

Background

3. The Board met in December 2020 to discuss the amortization of goodwill and tentatively decided that goodwill should be amortized on a straight-line basis over a 10-year default goodwill amortization period (the "default period"). Under the Board's tentative decision, an entity would be permitted to use the default period in all circumstances, without being required to justify its use or provide any additional disclosure about why the default period was elected.

4. The Board met in April 2021 to discuss what factors and criteria should be considered by entities electing an amortization period different than 10 years (the default period). As part of those discussions, the Board directed the staff to perform additional research and outreach related to certain factors that may be used to estimate the amortization period for goodwill, including management's estimated payback period, to help inform the Board on its decision related to a cap.

5. Because of the discussions at the December 2020 and April 2021 Board meetings and the questions raised by stakeholders since those meetings, the staff performed additional research on what factors and criteria should be used when estimating a goodwill amortization period.

Topic 1: Elements of a Model for Estimating a Goodwill Amortization Period

6. The staff researched and analyzed three possibilities regarding a list of factors. An open list would provide some factors while allowing management to consider other factors not listed if they are applicable to the business combination. A closed list would provide only the factors that an entity would be permitted to consider in estimating the goodwill amortization period. Alternatively, the Board could choose not to provide a list.

7. When researching and analyzing potential factors for the list, the staff considered whether the estimation guidance should require that only one factor be determinative or if an entity should be permitted to consider multiple factors in arriving at the estimated amortization period for goodwill.

8. Additionally, the staff analyzed an overall estimation principle for the model for estimating a goodwill amortization period.

Topic 2: Amortization Period—Factors

9. The staff reviewed historical sources and feedback received in the project to date to accumulate a list of factors for consideration. A list of the factors considered can be found in Appendix A.

Topic 3: Amortization Period—Cap and Floor

10. As discussed in previous Board meetings, stakeholders have provided mixed views on whether there should be a cap on the amortization period of goodwill. A cap on an estimated amortization period would define a maximum number of years over which goodwill could be amortized.

11. A floor would define a minimum number of years over which goodwill could be amortized if an entity deviates from the default period. In the December 2020 meeting, the Board voted on an alternative that only included a cap, not a floor, on the amortization period for goodwill.

Amortization Period—Reassessment

Topic 4: Amortization Period—Reassessment

Background

12. At the December 2020 meeting, the Board voted that an entity would “not be required to reassess” the amortization period. Since that meeting, stakeholders have asked whether the Board intended to prohibit *all* reassessments of the goodwill amortization period or if there are specific facts and circumstances that could warrant such a reassessment and, if so, what those facts and circumstances would be.

13. The staff performed additional analysis on the reassessment of the amortization period of goodwill to facilitate discussion and clarify the Board's intent on the issue.

Reassessing the Useful Life in Other Areas of Current GAAP

14. The existing guidance contains four models—the intangibles model that requires continuous reassessment, the long-lived assets model that explicitly requires reassessment when testing for impairment or abandonment only,[1] the private company amortization alternative (PCC alternative) model for goodwill that requires reassessment upon a change in facts and circumstances and the leasing model that specifies which changes in facts and circumstances require reassessing the lease term.

15. The staff notes that none of these models allow management optionality in deciding whether or not to reassess a useful life. Instead, under existing guidance, management is required to reassess useful lives based on different requirements (for example, reassessment every reporting period, changes in facts and circumstances, upon an impairment test, and so forth).

Feedback from Users

16. Investor feedback on the goodwill project has consistently noted that for many investors, the main informational use related to the subsequent measurement of goodwill is information about the subsequent performance of an acquisition to allow users to assess management's skill at capital allocation. Users also noted that this information is of the greatest value to them in the first three years following an acquisition and that information loses its relevance the longer the time period post-acquisition.

Alternatives

17. The staff is proposing two alternatives regarding reassessment of the goodwill amortization period:

    (a) Alternative 1: Prohibit all reassessments of the goodwill amortization period.

    (b) Alternative 2: Require reassessment in certain defined circumstances.

Alternative 1: Prohibit all Reassessment of the Goodwill Amortization Period

18. This alternative would prohibit an entity from reassessing the amortization period of goodwill, whether the entity elects the default amortization period or estimates the goodwill amortization period.

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[1] The staff notes that interpretations exist that although reassessing the useful life is not explicitly required for long-lived assets, that reassessment may be required whenever there are changes in facts and circumstances in the expected use of those assets.

19. Proponents of this alternative noted that the combination of an amortization and impairment model would be sufficient to address material changes in the amortization period of goodwill. Proponents of this alternative also highlighted concerns about the operability of reassessment because of the unique nature of goodwill, complexities that would arise from the unit of account for reassessment, and increased costs without providing users with clear benefits.

Alternative 2: Require Reassessment in Certain Defined Circumstances

20. Alternative 2 would require that an entity reassess the goodwill amortization period in certain defined circumstances.

21. Proponents of this alternative noted that it is important that management reflect all available information in its estimate of the amortization period and provide financial statement users with that information. They also noted that management should reflect this information in the goodwill amortization period in addition to any impairments.

22. If the Board selects Alternative 2, the Board would need to consider the unit of account at which goodwill reassessment should be performed.

Appendix A: Factors

Reference	Factor
A	The expected useful life of the underlying assets Useful life of the primary asset acquired Weighted average of the useful lives of the acquired assets
B	Discounted payback method—The period over which a specified percentage of the purchase price is recovered using the cash flows on which the business combination was based, on a discounted basis
C	The legal, regulatory, or contractual provisions that may affect the useful life of the acquisition
D-1	Value creation—Effect of synergies on the consolidated entity's future cash flows
D-2	Diversification—Effect of the diversified business operations on consolidated cash flows
D-3	Effect of acquiring an entity in a defensive acquisition
E	Placeholder for other factors as appropriate to the specific facts and circumstances of the business combination if there is an open list
F	Undiscounted payback period—The period over which a specified percentage of the purchase price is recovered using the cash flows on which the business combination was based, on an undiscounted basis
G	Estimated useful life of material intangible assets not separately identified from goodwill A useful life may parallel the service life expectancies of individuals or groups of employees
H	Product lifecycle—Time period over which a product is expected to be viable in a market
I	Time periods over which an acquiree, on a standalone basis, is expected to maintain higher future cash flows (or excess earnings power) compared with competitors in the industry
J	Increase in financial capacity
K	Industry-specific indicators, such as tangible book-value earn back
L	Make versus Buy—The amount of time it would have taken to develop the technology, customer base, or other value gained in the acquisition
M	Historical performance of the acquiree
N	Period over which deferred tax assets arising from the business combination will be recovered