

Board Meeting Handout

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

January 26, 2022

Meeting and Memo Purpose

1. The purpose of the January 26, 2022 Board meeting is to present incremental research and analysis related to the unit of account for the subsequent measurement of goodwill, specifically the level at which the goodwill impairment testing should be conducted as part of an impairment-with-amortization model.
2. This handout is organized as follows:
 - (a) Unit of Account for the Goodwill Impairment Test
 - (b) Alternatives

Questions for the Board

1. Does the Board prefer to require the unit of account for the goodwill impairment testing to be the reporting unit (Alternative A) or the operating segment (Alternative B)?

Background

1. At the June 23, 2021 Board meeting, the staff presented research and analysis related to the impairment test for the subsequent accounting for goodwill, including the unit of account for the impairment test. At this meeting, the staff presented three alternatives: (UA1) retain current GAAP (reporting unit level), (UA2) change to the reportable segment level, and (UA3) change to the operating segment level.
2. At that meeting, Board members did not express consensus on the unit of account alternatives and dismissed the reportable segment level alternative. The Board directed the staff to perform additional research and outreach with stakeholders to provide the Board with more information on the remaining two alternatives for the unit of account, the reporting unit and the operating segment, in the context of the Board's previous decision to amortize goodwill.
3. For additional background on the project, please see the project webpage related to the *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, the Board's previous meeting handouts, and the Board's tentative decisions reached to date.

Unit of Account for the Goodwill Impairment Test

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

4. This issue is related to whether the unit of account for the goodwill impairment test should remain at the reporting unit level or be changed to the operating segment level.
5. The Master Glossary of the FASB Accounting Standards Codification® defines a reporting unit as “the level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment (also known as a component).” An operating segment is a component of a public entity that engages in business activities, has its operating results regularly reviewed by the chief operating decision maker, and for which discrete financial information is available (paragraph 280-10-50-1).

Alternatives

6. On the basis of research and stakeholder feedback, the staff developed the following alternatives for the Board’s consideration:
 - a. *Alternative A*: Continue to require that the goodwill impairment test be performed at the reporting unit level.
 - b. *Alternative B*: Designate the operating segment as the unit of account for goodwill impairment testing, rather than the reporting unit.
7. Whether the Board prefers Alternative A or Alternative B, the staff will bring back disclosure considerations and alternatives in a future meeting.

Alternative A: Reporting Unit

8. This alternative would continue to require that the goodwill impairment test be performed at the reporting unit level.
9. Retaining the reporting unit for impairment testing would be in line with the preference expressed by some stakeholders that the impairment testing be performed at the most disaggregated level possible. Moving to a more aggregated impairment testing level, such as the operating segment, may cause fewer impairments to be recognized. The staff expects that there would not be incremental cost to this alternative relative to current practice because entities are already required to perform goodwill impairment testing at the reporting unit level, they already have processes and controls in place for identifying reporting units and supporting them to auditors and regulators.

Alternative B: Operating Segment

10. This alternative would designate the operating segment as the unit of account for goodwill impairment testing, rather than the reporting unit. Therefore, this change would eliminate the concept of reporting unit from the Codification.
11. Changing the unit of account to the operating segment would align more closely with what is reported in the financial statements, and in many cases would align more closely with how an entity’s internal

reporting and forecasting is structured, which could result in greater consistency between what is reported and the level at which the test is performed. A few users indicated that they preferred aligning the impairment test with information about operating results already provided in the financial statements, as reporting units are not used in financial reporting outside of the goodwill impairment test. Additionally, changing the unit of account to the operating segment level would reduce complexity and cost to preparers in performing the goodwill impairment test. Because public companies are currently required to identify operating segments as part of their segment reporting under Topic 280, there are already processes and controls in place to monitor activity at an operating segment level.