

FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2021-03
March 2021

Intangibles—Goodwill and Other (Topic 350)

Accounting Alternative for Evaluating Triggering Events

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Please ask for our Product Code No. ASU2021-03.

FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published monthly with the exception of January, March, July, and October by the Financial Accounting Foundation, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is \$328 per year. POSTMASTER: Send address changes to Financial Accounting Series, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 505**

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Summary

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

Under the current guidance in Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill, an entity is required to monitor and evaluate goodwill impairment triggering events throughout the reporting period. An entity is required to consider whether an event has occurred or circumstances have changed that would more likely than not reduce the fair value of a reporting unit (or entity, if the entity has elected the accounting alternative for amortizing goodwill¹ and chosen that option) below its carrying amount, that is, whether a triggering event has occurred. If the entity concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the entity must test goodwill for impairment. The triggering event analysis and resulting goodwill impairment test, if any, are required to be performed when a triggering event occurs without the use of hindsight or known changes to facts and circumstances after the triggering event date.

Certain stakeholders expressed concern about the cost and complexity of private companies evaluating triggering events and potentially measuring a goodwill impairment during the reporting period, rather than completing the analysis as of the end of the reporting period, whether the reporting period is an interim or annual period. Those stakeholders explained that this issue had become more apparent during the coronavirus (COVID-19) pandemic because of the uncertainty in the economic environment and the significant changes in facts and circumstances, quarter over quarter. Additionally, those stakeholders stated that some private companies may perform this analysis as part of their annual financial reporting process, so it may be difficult for them to determine whether there was a triggering event and the date on which the triggering event occurred. The Board decided to issue the amendments in this Update in response to stakeholders' concerns about (1) the cost and complexity of performing a goodwill triggering event evaluation during the reporting period, rather than completing the analysis as of the end of the reporting period, and (2) the relevance of the triggering event evaluation with the financial information reported to and used by stakeholders.

¹ Paragraphs 350-20-35-62 through 35-82 provide an accounting alternative for the subsequent measurement of goodwill for private companies and not-for-profit entities. That alternative is referred to in this document as the "accounting alternative for amortizing goodwill."

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to private companies and not-for-profit entities that elect the accounting alternative.

What Are the Main Provisions?

The amendments in this Update provide private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. An entity that does not elect the accounting alternative for amortizing goodwill and that performs its annual impairment test as of a date other than the annual reporting date should perform a triggering event evaluation only as of the end of the reporting period.

The amendments in this Update do not require incremental disclosures beyond the existing requirements in Topic 235, Notes to Financial Statements, and Subtopic 350-20.

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

Under the current guidance in Subtopic 350-20, an entity is required to identify and evaluate goodwill impairment triggering events when they occur to determine whether it is more likely than not that the fair value of a reporting unit (or entity, if the entity has elected the accounting alternative for amortizing goodwill and chosen that option) is less than its carrying amount. If an entity determines that it is more likely than not that goodwill is impaired, it must test goodwill for impairment using the triggering event date as the measurement date.

The amendments in this Update allow an entity within the scope of this guidance to elect not to monitor for goodwill impairment triggering events during the reporting period and, instead, to evaluate the facts and circumstances as of the end of the reporting period to determine whether it is more likely than not that goodwill is impaired. This accounting alternative should reduce cost and complexity for preparers by aligning the triggering event evaluation date with the reporting date, whether that date is an interim or annual reporting date. Additionally, the amendments may provide more relevant information for users because the

triggering event evaluation will reflect the facts and circumstances present as of the end of the reporting period for which those users receive financial statements.

When Will the Amendments Be Effective and What Are the Transition Requirements?

The amendments in this Update are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. An entity should not retroactively adopt the amendments in this Update for interim financial statements already issued in the year of adoption.

The amendments in this Update also include an unconditional one-time option for entities to adopt the alternative prospectively after its effective date without assessing preferability under Topic 250, Accounting Changes and Error Corrections.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–19. 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 underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 350-20

2. Amend paragraphs 350-20-05-4 through 05-4A and 350-20-05-5 through 05-6 and their related Subsection title, with a link to transition paragraph 350-20-65-4, as follows:

Intangibles—Goodwill and Other—Goodwill

Overview and Background

General

350-20-05-4 The guidance in this Subtopic is presented in the following two Subsections:

- a. General
- b. Accounting Alternatives ~~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 for amortizing goodwill 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. If the accounting alternative for a goodwill impairment triggering event evaluation is elected, a goodwill impairment triggering event shall be evaluated in accordance with paragraphs 350-20-35-83 through 35-86.

Accounting Alternatives Alternative

350-20-05-5 The Accounting Alternatives Alternative Subsections of this Subtopic provide guidance for the following:

- a. ~~An an~~ entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for amortizing goodwill. If elected, this the accounting alternative allows an eligible entity to amortize goodwill and test that goodwill for impairment upon a triggering event.
- b. An entity within the scope of paragraph 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation. If elected, this accounting alternative allows an eligible entity to evaluate goodwill impairment triggering events only as of the end of each reporting period.

350-20-05-5A The accounting alternatives ~~alternative~~ guidance can be found in the following paragraphs:

- a. Scope and Scope Exceptions—paragraphs 350-20-15-4 through 15-6
~~45-5~~
- b. Subsequent Measurement—paragraphs 350-20-35-62 through 35-86
~~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~~ 350-20-50-3A through 50-7
- f. Implementation Guidance and Illustrations—~~paragraph~~ paragraphs 350-20-55-26 through 55-29.

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 Alternatives ~~Alternative~~ Subsections of this Subtopic.

3. Amend paragraphs 350-20-15-3A through 15-4 and 15-5 and the related Subsection title and add paragraphs 350-20-15-4A and 350-20-15-6, with a link to transition paragraph 350-20-65-4, as follows:

Scope and Scope Exceptions

General

> Transactions

350-20-15-3A Paragraphs 350-20-15-4 through ~~15-6~~ ~~15-5~~, 350-20-35-62 through ~~35-86~~ ~~35-82~~, 350-20-40-8 through 40-9, 350-20-45-4 through 45-7, ~~350-20-50-4~~ ~~350-20-50-3A~~ through 50-7, 350-20-55-26 through 55-29, and 323-10-35-13 provide guidance for an entity electing the accounting ~~alternatives~~ ~~alternative~~ in this Subtopic. See ~~paragraph~~ ~~paragraphs~~ 350-20-65-2 and 350-20-65-4 for transition guidance for private companies and not-for-profit entities on applying the accounting ~~alternatives~~ ~~alternative~~ in Subtopic 350-20.

Accounting Alternatives Alternative

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

- a. **Goodwill** that an entity recognizes in a business combination in accordance with Subtopic 805-30 or in an **acquisition by a not-for-profit entity** in accordance with Subtopic 958-805 after it has been initially recognized and measured
- b. Amounts recognized as goodwill in applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures, and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 on reorganizations.

350-20-15-4A A private company or not-for-profit entity may make an accounting policy election to apply the accounting alternative for a goodwill impairment triggering event evaluation to goodwill subsequently accounted for in accordance with Subtopic 350-20.

350-20-15-5 An entity within the scope of paragraph 350-20-15-4 or paragraph 350-20-15-4A ~~the preceding paragraph~~ that elects the accounting alternative for amortizing goodwill or the accounting alternative for goodwill impairment triggering event evaluation shall apply all of the related subsequent measurement, derecognition, other presentation matters, and disclosure requirements upon election. ~~An~~ ~~The~~ accounting alternative, once elected, shall be applied to existing goodwill and to all additions to goodwill recognized in future transactions within the scope of ~~this~~ ~~that~~ accounting alternative.

350-20-15-6 An entity that elects either of the accounting alternatives in this Subtopic is not required to elect or precluded from electing the other alternative.

4. Amend paragraphs 350-20-35-62 and 350-20-35-66 and their related Subsection title and the headings preceding paragraphs 350-20-35-63, 320-20-35-65 through 35-67, 350-20-35-79, and 350-20-35-81 and add the heading preceding paragraph 350-20-35-62 and paragraphs 350-20-35-83 through 35-86

and their related heading, with a link to transition paragraph 350-20-65-4, as follows:

Subsequent Measurement

Accounting Alternatives Alternative

> Accounting Alternative for Amortizing Goodwill

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

>> Amortization of Goodwill

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

>> Recognition and Measurement of a Goodwill Impairment Loss

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

>>> When to Test Goodwill for Impairment

350-20-35-66 Goodwill of an entity (or a reporting unit) shall be tested for impairment if an event occurs or circumstances change that indicate that the fair value of the entity (or the reporting unit) may be below its carrying amount (a triggering event). Paragraph 350-20-35-3C(a) through (g) includes examples of those events or circumstances. Those examples are not all-inclusive, and an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of the entity (or of a reporting unit) in determining whether to perform the goodwill impairment test. For those entities that have elected the accounting alternative for a goodwill impairment triggering event evaluation in paragraph 350-20-35-84, a goodwill triggering event evaluation shall be performed only as of the end of each reporting period. If an entity determines that there are no triggering events, then further testing is unnecessary.

>>> >> The Goodwill Impairment Test

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

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

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

>> > Equity Method Investments

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

> Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation

350-20-35-83 The following guidance for goodwill applies to entities within the scope of paragraph 350-20-15-4A that elect the accounting alternative for a goodwill impairment triggering event evaluation.

350-20-35-84 An entity may elect to perform its goodwill impairment triggering event evaluation only as of the end of each reporting period, whether the reporting period is an interim or annual period. That is, the entity would not evaluate goodwill impairment triggering events and measure any related impairment during the reporting period. An entity electing the accounting alternative shall assess whether events or circumstances have occurred that would require an entity to test goodwill for impairment as follows:

- a. For an entity that has elected the accounting alternative for amortizing goodwill, the entity's evaluation of a triggering event, as described in paragraph 350-20-35-66, shall be performed only as of each reporting date.
- b. For an entity that has not elected the accounting alternative for amortizing goodwill:
 - 1. If the entity performs its annual goodwill impairment test as of the end of the reporting period, the entity shall not evaluate its goodwill for impairment during the reporting period as described in paragraph 350-20-35-30.
 - 2. If the entity performs its annual goodwill impairment test on a date other than the end of the reporting period (in accordance with paragraph 350-20-35-28), the entity's evaluation of impairment between annual goodwill impairment tests (as described in paragraph 350-20-35-30) shall be performed only as of the end of a reporting period.

350-20-35-85 An entity electing this accounting alternative shall apply it only to goodwill evaluated in accordance with this Subtopic. This accounting alternative does not change the following:

- a. The requirement to assess other assets for impairment (for example, long-lived assets and indefinite-lived intangibles) under existing guidance. If the impairment test related to other assets would have resulted in a goodwill impairment triggering event, an entity electing this accounting alternative should consider the results of an impairment test related to other assets in connection with its goodwill impairment test only as of its annual goodwill impairment testing date and the reporting date, whether that date is an interim or annual reporting date, as applicable.
- b. The requirements to test the remaining goodwill for impairment if only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of in accordance with paragraph 350-20-40-7.

350-20-35-86 An entity shall not apply this guidance retroactively to interim periods for which annual financial statements have already been issued.

- 5. Amend paragraph 350-20-40-8 and its related Subsection title, with a link to transition paragraph 350-20-65-4, as follows:

Derecognition

Accounting Alternatives Alternative

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

6. Amend paragraph 350-20-45-4 and its related Subsection title, with a link to transition paragraph 350-20-65-4, as follows:

Other Presentation Matters

Accounting Alternatives Alternative

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

7. Add paragraphs 350-20-50-3A through 50-3B and amend paragraph 350-20-50-4 and the related Subsection title, with a link to transition paragraph 350-20-65-4, as follows:

Disclosure

Accounting Alternatives Alternative

350-20-50-3A The information in paragraphs 350-20-50-4 through 50-7 shall be disclosed in the notes to financial statements for any entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for amortizing goodwill.

350-20-50-3B An entity within the scope of paragraph 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation shall disclose its use of the alternative as a significant accounting policy in accordance with paragraph 235-10-50-1.

> Disclosures about Additions to Goodwill

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

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

8. Amend paragraph 350-20-55-26 and its related Subsection title, with a link to transition paragraph 350-20-65-4, and the pending content for paragraph 350-

20-55-26, with no additional link to transition, and add paragraphs 350-20-55-27 through 55-29 and their related headings, with a link to transition paragraph 350-20-65-4, as follows:

Implementation Guidance and Illustrations

Accounting Alternatives Alternative

> Implementation Guidance

350-20-55-26 The following flowchart provides an overview of the accounting alternative for amortizing goodwill for entities within the scope of paragraph 350-20-15-4.

[The remainder of this paragraph is not shown here because it is unchanged.]

Pending Content:

Transition Date: (P) *December 16, 2019*; (N) *December 16, 2022* | **Transition Guidance:** 350-20-65-3

350-20-55-26 The following flowchart provides an overview of the accounting alternative for amortizing goodwill for entities within the scope of paragraph 350-20-15-4.

[The remainder of this paragraph is not shown here because it is unchanged.]

> Illustrations

> > Example 1: Illustration of the Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation

350-20-55-27 This Example illustrates the effect of the accounting alternative for a goodwill impairment triggering event evaluation on the impairment conclusion for an entity within the scope of paragraph 350-20-15-4A. This Example is not indicative of every outcome that may occur because facts and circumstances surrounding triggering events are unique to each entity.

350-20-55-28 Entity A adopted the accounting alternative for a goodwill impairment triggering event evaluation and performs a goodwill impairment triggering event evaluation only as of the end of each reporting period. Entity A also adopted the accounting alternative for amortizing goodwill in accordance with paragraph 350-20-05-5 and elected to perform an impairment test for goodwill at the entity level upon the occurrence of a triggering event only. During the second quarter, Entity A lost a significant customer. However, Entity A was able to replace that customer

late in the third quarter of the same year, and the entity's operations returned to previously forecasted levels by the annual reporting date.

350-20-55-29 If Entity A reports only annually, then it would evaluate the facts and circumstances as of the annual reporting date and may conclude that no triggering event exists; therefore, no further goodwill impairment testing would be necessary. Alternatively, if Entity A reports on both a quarterly basis and an annual basis, then it would evaluate the facts and circumstances as of the end of each quarter and may conclude that the loss of the significant customer represents a goodwill impairment triggering event requiring additional impairment testing as of the end of the second quarter.

9. Amend paragraphs 350-20-65-2 through 65-3 and their related headings, with a link to transition paragraph 350-20-65-4, and add paragraph 350-20-65-4 and its related heading, as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Updates No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, and No. 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, and No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

350-20-65-2 The following represents the transition information related to Accounting Standards Updates No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, ~~and~~ No. 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, and No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*, referenced in paragraph 350-20-15-3A:

- a. Upon adoption of the guidance for the accounting alternative for amortizing goodwill in the Accounting Alternatives Alternative Subsections of this Subtopic and the guidance in paragraph 323-10-35-13, that guidance shall be effective prospectively for new goodwill recognized after the adoption of that guidance. For existing goodwill, that guidance shall be effective as of the beginning of the first fiscal year in which the accounting alternative is adopted.
- b. Goodwill existing as of the beginning of the period of adoption shall be amortized prospectively on a straight-line basis over 10 years, or less

- than 10 years if an entity demonstrates that another useful life is more appropriate.
- c. Subparagraph superseded by Accounting Standards Update No. 2016-03.
 - d. Upon adoption of the accounting alternative for amortizing goodwill, an entity shall make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level.
 - e. A private company or not-for-profit entity that makes an accounting policy election to apply ~~the guidance~~ the accounting alternative for amortizing goodwill in the Accounting Alternatives Alternative Subsections of this Subtopic for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

> Transition Related to Accounting Standards Updates No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, and No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

350-20-65-3 The following represents the transition and effective date information related to Accounting Standards Updates No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, and No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*:

- a. The pending content that links to this paragraph shall be effective for annual and any interim impairment tests performed for periods beginning after:
 1. December 15, 2019, for **public business entities** that are U.S. **Securities and Exchange Commission (SEC) filers**, excluding entities eligible to be smaller reporting companies as defined by the SEC. The one-time determination of whether an entity is eligible to be a smaller reporting company shall be based on an entity's most recent determination as of November 15, 2019, in accordance with SEC regulations.
 2. Subparagraph superseded by Accounting Standards Update No. 2019-10.
 3. December 15, 2022, for all other entities.
- b. Early adoption is permitted for interim and annual goodwill impairment tests with a measurement date on or after January 1, 2017.
- c. An entity shall apply the pending content that links to this paragraph prospectively.

- d. An entity shall disclose the nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable, in the fiscal period in which the change in accounting principle is made. An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.
- e. [{add glossary link}](#)Private companies[{add glossary link}](#) that have adopted the private company accounting alternative for ~~the subsequent measurement of amortizing~~ goodwill or the private company accounting alternative for a goodwill impairment triggering event evaluation but have not adopted the private company alternative for subsuming certain intangible assets into goodwill are allowed, but not required, to adopt this guidance prospectively on or before the effective date without having to justify preferability of the accounting change. Private companies that have adopted the private company alternative to subsume certain intangible assets into goodwill and, thus, also adopted the goodwill alternative are not permitted to adopt this guidance upon issuance without following the guidance in Topic 250 on accounting changes and error corrections, including justifying why it is preferable to change their accounting policies.

> Transition Related to Accounting Standards Update No. 2021-03, Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events

350-20-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*:

- a. The pending content that links to this paragraph shall be effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. A private company or not-for-profit entity that adopts the pending content that links to this paragraph shall apply it as of the beginning of the interim or annual period for financial statements that have not yet been issued or made available for issuance in the year of adoption. A private company or not-for-profit entity shall not retroactively adopt the pending content that links to this paragraph as of the beginning of an annual period for which interim-period financial statements have already been issued in the year of adoption.
- b. For a private company or not-for-profit entity that adopts the pending content that links to this paragraph after its original effective date, that pending content shall be applied prospectively as of the beginning of the first reporting period in which the accounting alternative is adopted.

- c. A private company or not-for-profit entity that makes an accounting policy election to apply the pending content that links to this paragraph for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

Amendments to Subtopic 323-10

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

Investments—Equity Method and Joint Ventures—Overall

Subsequent Measurement

> The Equity Method—Overall Guidance

> > Basis Difference

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

Amendments to Subtopic 805-20

11. Amend paragraph 805-20-15-4 and its related Subsection title, with a link to transition paragraph 350-20-65-4, as follows:

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

Scope and Scope Exceptions

Accounting Alternatives Alternative

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

Amendments to Subtopic 805-30

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

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

Disclosure

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

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

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

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

Amendments to Subtopic 958-805

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

Not-for-Profit Entities—Business Combinations

Subsequent Measurement

Acquisition by a Not-for-Profit Entity

> Goodwill Acquired

958-805-35-5 For guidance, including the related accounting alternative on subsequently measuring goodwill recognized in an acquisition of a business or a nonprofit activity, see Subtopic 350-20. See paragraph 350-20-65-2 for transition guidance on applying the accounting alternative for amortizing goodwill in Subtopic 350-20 and paragraph 350-20-65-4 for transition guidance on applying the accounting alternative for a goodwill impairment triggering event evaluation.

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

Disclosure

Acquisition by a Not-for-Profit Entity

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

Amendments to Status Sections

15. Amend paragraph 323-10-00-1, by adding the following item to the table, as follows:

323-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
323-10-35-13	Amended	2021-03	03/30/2021

16. Amend paragraph 350-20-00-1, by adding the following items to the table, as follows:

350-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
350-20-05-4	Amended	2021-03	03/30/2021
350-20-05-4A	Amended	2021-03	03/30/2021
350-20-05-5 through 05-6	Amended	2021-03	03/30/2021
350-20-15-3A through 15-5	Amended	2021-03	03/30/2021
350-20-15-4A	Added	2021-03	03/30/2021
350-20-15-6	Added	2021-03	03/30/2021
350-20-35-62	Amended	2021-03	03/30/2021
350-20-35-63	Amended	2021-03	03/30/2021
350-20-35-65 through 35-67	Amended	2021-03	03/30/2021
350-20-35-79	Amended	2021-03	03/30/2021
350-20-35-81	Amended	2021-03	03/30/2021
350-20-35-83 through 35-86	Added	2021-03	03/30/2021
350-20-40-8	Amended	2021-03	03/30/2021
350-20-45-4	Amended	2021-03	03/30/2021
350-20-50-3A	Added	2021-03	03/30/2021
350-20-50-3B	Added	2021-03	03/30/2021
350-20-50-4	Amended	2021-03	03/30/2021
350-20-55-26	Amended	2021-03	03/30/2021
350-20-55-27 through 55-29	Added	2021-03	03/30/2021
350-20-65-2	Amended	2021-03	03/30/2021
350-20-65-3	Amended	2021-03	03/30/2021
350-20-65-4	Added	2021-03	03/30/2021

17. Amend paragraph 805-20-00-1, by adding the following item to the table, as follows:

805-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
805-20-15-4	Amended	2021-03	03/30/2021

18. Amend paragraph 805-30-00-1, by adding the following item to the table, as follows:

805-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
805-30-50-4	Amended	2021-03	03/30/2021

19. Amend paragraph 958-805-00-1, by adding the following items to the table, as follows:

958-805-00-01 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-805-35-5	Amended	2021-03	03/30/2021
958-805-50-17	Amended	2021-03	03/30/2021

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Schroeder dissented.

Mr. Schroeder dissents from the issuance of this Accounting Standards Update. The limited accounting relief that this Update provides will be achieved by moving to an evaluation of goodwill impairment triggering events existing as of the reporting date, whether that date is an interim or annual reporting date. This change differs from the current requirement to assess those events when they occur at any point during any period, which is a requirement that will remain in effect for all public business entities.

While this Update may address a time-sensitive need for cost reduction among some entities, Mr. Schroeder believes that those needs should not take priority over the Board's clear mission of providing investors and other users of financial

reporting with decision-useful information, particularly in times of economic stress. He also believes that any cost reductions will diminish the later in the year that a triggering event occurs.

Temporary Relief

Mr. Schroeder would have preferred to limit the Update's intended accounting relief to a period more aligned with the current period of economic stress. A temporary option to apply the amendments in this Update would have provided targeted optional relief for those most in need, while providing time for the separate project on the accounting for goodwill currently on the Board's technical agenda to seek much broader, holistic improvements. He believes that improvements are needed on subsequent accounting for goodwill and intangible assets for all entities. One such alternative could have been using an allowance that would have permitted a reversal if events developed differently than were anticipated.

Mr. Schroeder notes that using a "sunset" date (for example, financial statements dated no later than December 31, 2021) for any temporary relief could have been revisited as necessary or based on progress in the previously mentioned broader goodwill project.

Need for Disclosures

Regarding the Board's mission, Mr. Schroeder is concerned that this Update does not require disclosures of decision-useful information about any triggering events that occurred during the period. An information vacuum will occur when those events are subsequently (either partially or wholly) overcome before the end of the period, thereby reducing or eliminating an impairment. In those situations, no disclosures would be required under this Update.

The Board's decision to require no specific disclosures is based on limited supplemental stakeholder feedback received during outreach on this project, as well as feedback received as part of the Invitation to Comment on identifiable intangible assets issued in 2019. That feedback suggested that users only care about whether an impairment exists at the end of the reporting period. He believes that the staff should have gone beyond the high-level response by asking whether knowledge of interim triggering events would have been useful. In his view, disclosure of interim triggering events would provide a more complete financial picture and could avoid the masking of events that might highlight operating weaknesses. While a single triggering event may not be conclusive that impairment exists, it can raise a useful red flag.

Members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Susan M. Cospers
Marsha L. Hunt
R. Harold Schroeder

Background Information and Basis for Conclusions

Introduction

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

BC2. On December 21, 2020, the Board issued proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*, for public comment, with comments due on January 20, 2021. The Board received 24 comment letters on the proposed Update. Overall, respondents supported the amendments in the proposed Update. The Board also solicited feedback from the Private Company Council, whose members generally supported the amendments.

BC3. The amendments in this Update simplify the goodwill impairment triggering event evaluation. The amendments allow private companies and not-for-profit entities to perform the goodwill impairment triggering event evaluation as of the end of the reporting period, whether entities report on an interim or annual only basis. Entities electing the amendments are not required to monitor for triggering events throughout the reporting period. Instead, they should assess the facts and circumstances as of the end of the reporting period to determine whether there has been a triggering event and whether it is more likely than not that goodwill is impaired.

BC4. The amendments in this Update do not affect any other aspects of the subsequent measurement of goodwill or the evaluation of triggering events for assets other than goodwill.

Background Information

BC5. Subtopic 350-20 provides guidance on the accounting for goodwill. Under that Subtopic, there are both general guidance and an accounting alternative ("accounting alternative for amortizing goodwill") that includes certain provisions that simplify the goodwill impairment test for private companies and not-for-profit entities. Those provisions include the following options:

- a. Amortize goodwill on a straight-line basis over 10 years or a shorter period if an entity determines that another useful life is more appropriate
- b. Forgo performing an annual impairment test and, instead, test goodwill for impairment only when a triggering event occurs

c. Test goodwill for impairment at the entity or reporting unit level.

Entities that apply the accounting alternative for amortizing goodwill are still required to monitor for and evaluate triggering events throughout the year.

BC6. When a triggering event occurs, under the current guidance in Subtopic 350-20, an entity is required to perform an analysis of whether it is more likely than not that the fair value of a reporting unit (or entity, if an entity has elected the accounting alternative for amortizing goodwill and chosen that option) is less than its carrying value. This is required regardless of whether the entity elects the accounting alternative for amortizing goodwill. If the entity concludes that it is more likely than not that goodwill is impaired, then it must test goodwill for impairment. The triggering event analysis and resulting goodwill impairment test, if any, must be performed on the date that a triggering event occurs.

BC7. During recent stakeholder meetings with the FASB, some stakeholders expressed concern about the cost and complexity for private companies in applying the triggering event analysis (and measuring any resulting impairment) at a date between reporting dates for entities that report only annual financial statements. Those stakeholders explained that this issue had become exacerbated by the effects from the COVID-19 pandemic because of the uncertainty in the economic environment and the significant developments and changes in facts and circumstances that occurred after the initial onset of the pandemic. Additionally, those stakeholders stated that this issue was highlighted by, but not limited to, the current environment with the pandemic because private companies often may perform this analysis as part of their annual financial reporting process. Therefore, it may be difficult for them to determine whether there was a triggering event during the year and, if so, the precise date on which the triggering event occurred.

BC8. Those stakeholders also asserted that performing a goodwill impairment evaluation on the date that a triggering event occurs may not provide users of private company financial statements with useful information. As an example, those stakeholders noted that if a private company that reports only on an annual basis determines that it has a goodwill impairment triggering event on an interim date but the facts and circumstances that led to the triggering event have changed as of the end of the annual reporting period, an impairment charge estimated as of the date of the triggering event may not provide users of financial statements with meaningful information if the entity reports results only at year-end.

BC9. On the basis of those discussions with stakeholders, the Board added a project to its agenda to consider offering an accounting alternative that would allow private companies and not-for-profit entities to align evaluation of goodwill impairment triggering events with the end of the reporting period.

Benefits and Costs

BC10. 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.

BC11. While stakeholders raised this issue in the context of the uncertain economic environment resulting from the COVID-19 pandemic, the fundamental issue being highlighted is not solely related to the pandemic. The issue relates to the cost and complexity of applying existing accounting guidance in an area where the Board received consistent user feedback that there is limited relevance to the users of financial statements for certain entities.

BC12. The Board does not anticipate a loss of decision-useful information for users because feedback indicated that users of private company and not-for-profit financial statements do not place a significant value on noncash charges like goodwill impairment. The staff performed supplemental outreach for this project with users of private company and not-for-profit financial information as well as analyzed the extensive feedback received as part of the 2019 FASB Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, and Accounting Standards Updates No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, and No. 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Those stakeholders stated that users of private company and not-for-profit financial statements focus on cash flows and liquidity and solvency metrics, while users of not-for-profit financial statements also focus on the organization's service efforts and whether the organization is achieving its mission. Additionally, aligning the triggering event assessment date for goodwill impairment with the reporting date may be more relevant for users because it reflects the facts and circumstances as of that reporting date.

BC13. The Board anticipates that the amendments in this Update will reduce costs for those entities that elect to apply them. The amendments provide the benefit of simplifying the triggering event evaluation by providing private companies and not-for-profit entities with an accounting alternative by aligning the goodwill triggering event evaluation date with the reporting date, whether that date

is an interim or annual reporting date consistent with the existing pattern of entities' external financial reporting. That will allow those entities to align the goodwill triggering event evaluation with their other reporting processes, such as calculating debt covenants. The amendments do not create new accounting requirements and are optional.

Basis for Conclusions

BC14. The amendments in this Update provide a private company or not-for-profit entity with an accounting alternative to perform the identification and evaluation of a triggering event for goodwill impairment as of the end of the reporting period, whether that reporting period is an interim or annual period.

Scope

BC15. The Board considered what entities and accounts should be within the scope of the amendments and how the amendments would interact with existing guidance. The Board decided that the amendments in this Update should apply to private companies and not-for-profit entities and should not be limited to those entities that also have elected the accounting alternative for amortizing goodwill.

Private Company Decision-Making Framework

BC16. The Private Company Decision-Making Framework allows the Board to create accounting alternatives for private companies when information is not relevant to users or when it is relevant but overly costly or complex for preparers to provide. The Board concluded that the amendments in this Update are an accounting alternative rather than a practical expedient because the accounting result of applying the amendments does not achieve the same or similar reporting objective of applying existing GAAP.

BC17. The Board reviewed the Private Company Decision-Making Framework to determine whether this issue meets the criteria for providing a private company accounting alternative.

BC18. The Board determined that relief from monitoring for triggering events at a date other than the reporting date and, therefore, from performing goodwill impairment testing during the reporting period, will significantly reduce cost for entities because the impairment testing process between reporting dates may require that entities develop interim balance sheets and cash flow forecasts.

BC19. The Board learned through outreach that users of private company financial information are generally lenders that focus on liquidity and tangible net worth as opposed to noncash charges such as goodwill impairment. Therefore, the timing of when the goodwill impairment triggering event evaluation is performed,

as long as it is completed as of the reporting date, may be irrelevant for users of entities within the scope of the alternative.

BC20. The Board concluded that there could be a significant cost for entities within the scope of this alternative to perform a triggering event analysis during the reporting period that may not provide relevant information at the reporting date if the facts and circumstances surrounding the triggering event change.

BC21. The Board determined that the Private Company Decision-Making Framework supports providing an accounting alternative for the timing of assessing goodwill impairment triggering events because the relevance to users is low, the cost to preparers of providing the information is high, and there is no practical expedient available. The Board notes that this position is supported by the existence of other accounting alternatives on initial and subsequent measurement of goodwill that have previously been extended to the same population of entities on the basis of the lack of usefulness and the cost and complexity of providing information related to goodwill.

Not-for-Profit Entities

BC22. In 2019, the Board extended the accounting alternative for amortizing goodwill to not-for-profit entities. The Board determined that users of not-for-profit financial statements typically do not find goodwill impairment to be relevant or provide decision-useful information. Feedback received during that project indicated that, instead, users of not-for-profit financial statements focus on cash flows, liquidity and solvency metrics, as well as the organization's service efforts and whether it is achieving its mission.

BC23. Update 2019-06 included not-for-profit entities that are conduit bond obligors or that otherwise meet the definition of a public entity in the scope expansion. Those entities were included because despite the fact that they file publicly available data, the needs of their users are aligned with other not-for-profit entities, and the Board noted that the lack of relevance of the information outweighed the fact that it was made publicly available. The Board applied the same reasoning to the scope of the amendments in this Update.

Entities within Scope

BC24. The scope of the amendments in the proposed Update was limited to private companies and not-for-profit entities that report goodwill subsequently accounted for under Subtopic 350-20, or any line item that is affected by a goodwill impairment (in-scope financial information), on an annual basis only. The proposed scope was based on feedback indicating that those entities face the greatest cost and complexity in performing interim triggering event evaluations. Some entities that report on an annual basis delay preparing their goodwill analyses until they prepare their annual financial statements, which may be long after the triggering

event occurs. Those entities may have difficulty in preparing an interim balance sheet and estimates without the use of hindsight. The proposed scope also aligned with feedback that users requiring financial information on an annual basis only would see improved usefulness and relevance in aligning the goodwill impairment triggering event analysis with year-end rather than an interim date.

BC25. The scope of the guidance in the amendments in the proposed Update excluded entities that report in-scope financial information more frequently than on an annual basis. The Board believed that the challenges of performing a goodwill impairment triggering event analysis between reporting dates for those entities may be fewer because the time between reporting periods is shorter and, therefore, the challenges related to hindsight are less prevalent for those entities. Therefore, the Board expected that entities reporting on an interim basis would derive less benefit from reduced costs from the proposed alternative. The Board also initially considered that a user requiring an entity to report in-scope financial information more frequently than annually may have greater informational needs associated with interim impairment information than a user who requires the same information to be reported on an annual basis only.

BC26. Respondents to the proposed Update indicated that a majority of private and not-for-profit entities report some form of financial information on a more frequent than annual basis and that the scope of the accounting alternative in the proposed Update would cause it to be available to a more limited number of entities. Respondents also noted that preparing the necessary estimates and financial statement balances as of a triggering event date between reporting dates may be difficult for all entities to do without using hindsight, including those that report interim financial information. Additionally, feedback indicated that many entities already do not perform a triggering event evaluation other than as of the end of the reporting period, whether the reporting period is an interim or annual period, because there is still complexity in preparing financial statements if the triggering event occurs on a date other than the end of the reporting period.

BC27. Respondents to the proposed Update also indicated that entities may have difficulty determining whether their interim reporting practices exclude them from the scope of the proposed alternative. Those respondents expressed concern about connecting the frequency of reporting to the scope of the proposed alternative and requested that the Board clarify the scope including what would constitute GAAP-compliant financial information.

BC28. As a result of the feedback, the Board decided to expand the scope of the accounting alternative to all private companies and not-for-profit entities, regardless of frequency and type of reporting. The Board decided that a private company or not-for-profit entity may elect an accounting alternative to perform its goodwill impairment triggering event evaluation only as of the end of each reporting period, whether the reporting period is an interim or annual period. The Board acknowledges that many entities provide users of their financial statements (for example, lenders, regulators, and investors) with some level of financial

information more frequently than annually that indicates that it complies with the recognition and measurement principles of GAAP. The Board concluded that this expanded scope would allow more entities to apply the alternative. The Board also concluded that it would benefit users by aligning the goodwill impairment triggering evaluation and the reported financial information for both interim and annual periods.

BC29. The Board decided not to further define what constitutes GAAP-compliant financial information. The Board concluded that entities should already be applying the provisions of Subtopic 350-20 anytime they report in compliance with GAAP; therefore, the amendments in this Update merely shift the timing of when to perform the goodwill impairment triggering event evaluation to the end of the reporting period. Therefore, guidance on when to apply the accounting alternative, or the range of financial information that constitutes GAAP-compliant financial information, is not within the scope of this Update. However, the Board does not expect the provisions of this Update to change an entity's understanding of when it reports financial information.

BC30. Some respondents requested that the Board allow an entity that files GAAP-compliant financial information on an interim basis to delay evaluating goodwill impairment triggering events to the annual reporting date. The Board concluded that it would be misleading to allow entities that provide interim financial information to delay evaluating goodwill for impairment until the end of the annual reporting period. The Board notes that if an entity determines that it is required to report interim financial information, Topic 350-20 requires that interim financial information include an evaluation of interim triggering events.

Private Companies Intending to Become Public Business Entities

BC31. Private company accounting alternatives apply only to private companies (and not-for-profit entities, when the Board includes those entities within the scope as permitted by the Private Company Decision-Making Framework). Private companies are required to present historical interim and annual financial statements as part of a public offering or whenever they meet the definition of a public business entity as defined in the Master Glossary of the Codification. An entity that becomes a public business entity is required to reverse the effect of any private company accounting alternatives recognized in its historical financial statements. Stakeholder feedback had indicated that considerable time and effort are needed for private companies wishing to go public to reverse the existing accounting alternative for amortizing goodwill.

BC32. The Board acknowledges that reversing the accounting alternative would pose a challenge if a private company adopting the alternative wished to become a public business entity. To reverse the effects, an entity would need to go back to the date of adoption of the accounting alternative and evaluate (without hindsight)

whether there were triggering events during the reporting period, including interim reporting periods, that would have resulted in a goodwill impairment and, if so, measure that impairment. However, those burdens are likely no more significant than would be the case for a private company that elected the alternative to amortize goodwill that subsequently elected to go public. The Board cautions entities that may eventually become public business entities to consider the potential future costs before electing this or any other alternative.

Accounts within Scope

BC33. The Board considered whether to expand the alternative to other assets such as long-lived assets and other intangibles, which are tested for impairment when a triggering event occurs.

BC34. The Board considered the differences in the nature of goodwill and long-lived assets and other intangibles and the effort required to test those assets for impairment. The Board determined that users of private company and not-for-profit entity financial statements find information about those types of intangibles assets and long-lived assets to be of greater relevance than that of goodwill. For example, property, plant, and equipment are included in the calculation of tangible net worth, whereas goodwill is generally excluded.

BC35. The Board also determined that the carrying value and fair value of other long-lived assets and intangibles are less costly to assess than goodwill. That is because those assets or asset groups are more discrete and information about their carrying value between reporting dates is readily available, whereas calculating the carrying value of a reporting unit generally requires that an interim balance sheet be prepared. Similarly, the future cash flows from an asset or asset group are usually easier to identify and less time consuming and costly to assess than the future cash flows of a reporting unit (or an entity, for those entities that have elected the accounting alternative for amortizing goodwill and chosen that option).

BC36. Because information about impairment of other types of long-lived assets is relevant to users, and less costly and complex for preparers, the Board concluded that it would not extend a similar accounting alternative for those assets as a part of this Update. Therefore, the Board decided to limit the alternative only to the goodwill impairment triggering event evaluation. Furthermore, the Board decided to explicitly prohibit analogizing to this accounting alternative for long-lived assets and other intangibles.

BC37. The Board concluded that the alternative should apply to all goodwill that is tested for impairment in accordance with Subtopic 350-20. The alternative does not apply to equity method goodwill because the subsequent measurement of equity method goodwill is accounted for under a separate impairment model than the subsequent measurement of goodwill recognized in a business combination or a reorganization.

Interaction with Other Guidance

BC38. The Board considered limiting the scope of the alternative to entities that had adopted the accounting alternative for amortizing goodwill. The Board noted that allowing an entity to adopt the accounting alternative separately from the existing accounting alternatives would allow a larger population of entities to potentially benefit from the guidance. Therefore, the Board concluded that entities will be able to apply the alternative either separately from the existing accounting alternatives for goodwill or together with the existing accounting alternatives for goodwill.

BC39. Additionally, the Board considered limiting the use of the accounting alternative to entities that had adopted the amendments in Accounting Standards Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 of the goodwill impairment test. The effective date of the amendments in that Update was delayed by the amendments in Accounting Standards Update No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, to allow entities to align the elimination of Step 2 with their adoption of the amendments in the current expected credit losses standard (Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*). However, the Board concluded that there was no reason to require that an entity adopt the amendments in Update 2017-04 to adopt the accounting alternative because the accounting alternative affects the timing of assessing triggering events but does not affect the test itself. The Board notes that the amendments in Update 2017-04 can be early adopted, and it expects that many entities that find themselves in a position to perform an impairment test for the first time since those amendments were issued may choose to early adopt that guidance to further reduce the cost and complexity of impairment testing.

BC40. Other types of long-lived assets and other intangible assets are evaluated for impairment when a triggering event has been identified. Subtopic 350-20 requires those other assets to be assessed for impairment before goodwill and any impairment of those assets to be included in the carrying value that is used in the goodwill impairment test. Therefore, the amendments in this Update do not affect the ordering of impairment testing.

Availability of the Guidance on a Permanent Basis

BC41. Stakeholders raised this issue about the timing of goodwill impairment testing in the context of the macroeconomic effects of the COVID-19 pandemic, which are expected to broadly affect most entities that report financial statements.

The Board debated limiting the accounting alternative to triggering events and reporting periods affected by the COVID-19 pandemic or making it available on a permanent basis.

BC42. The Board considered that it would be difficult to determine what periods have been or will be affected by the COVID-19 pandemic because the pandemic has had a large-scale effect on the economy.

BC43. Stakeholders indicated that although the request for relief arose because of the COVID-19 pandemic, the relevance of interim goodwill impairment information for users of private company and not-for-profit financial statements is the same regardless of whether an impairment is associated with the pandemic. Stakeholders also provided feedback that it would be difficult to determine a cut off for when a reporting period is no longer affected by COVID-19 and that the subjectivity and judgment that might be involved with such an assessment would increase cost and complexity.

BC44. The Board decided to provide the accounting alternative on an ongoing basis and not to limit it to reporting periods affected by the pandemic. The Board notes that the criteria in the Private Company Decision-Making Framework are met with respect to cost and complexity and user relevance even when considering this issue beyond the effect of the pandemic and that limiting the availability of the alternative is unnecessary.

Other Considerations

BC45. When an entity disposes of part of a reporting unit that constitutes a business, it includes the goodwill associated with that business in the carrying amount used to determine the gain or loss on disposal. Goodwill is allocated on the basis of the relative fair value of the portion of the reporting unit disposed and the portion that is retained. Paragraph 350-20-40-7 requires that an entity test the remaining portion of the goodwill for impairment at the disposal date. The amendments in this Update do not change the timing of, or requirement to, perform that test.

BC46. However, the Board notes that paragraph 350-20-35-3C(f) indicates that “a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit” could be considered a triggering event. The amendments in this Update allow an entity to evaluate that triggering event as of its next reporting date, regardless of when during the period the disposal became more likely than not, as long as the disposal was not completed during the reporting period.

Annual Goodwill Impairment Testing Not Performed on Annual Reporting Date

BC47. Entities that have not adopted the accounting alternative for amortizing goodwill are required to test goodwill for impairment annually. Some entities perform their annual impairment test at a date other than at the annual reporting date in accordance with paragraph 350-20-35-28. For example, an entity may test for impairment on October 1 for the fiscal year ended December 31. The provisions of this alternative do not preclude entities from continuing to perform their annual impairment tests at a date other than the annual reporting date.

BC48. However, if those entities adopt the provisions of this alternative, they will not need to monitor for triggering events before, or after, the annual impairment test, except for as of the end of the next reporting period, whether the reporting period is an interim or annual period.

Disclosure

BC49. The Board considered whether to add additional disclosure requirements for entities that adopt this alternative. The Board considered whether the current disclosures about the adoption of accounting alternatives and application and results of the triggering event evaluation will continue to provide adequate decision-useful information if an entity adopts the alternative.

BC50. The Board decided not to require entities to provide additional disclosures if they adopt this alternative. Paragraph 235-10-50-1 requires that an entity disclose significant accounting policies that it has adopted. The Board determined that the existing disclosure requirements for the application of alternatives are sufficient.

BC51. Under the accounting alternative, an entity reviews the facts and circumstances including the results of operations, significant events, or transactions that occurred during the reporting period to determine whether a triggering event exists as of the end of the reporting period. The Board considered requiring disclosure of potential triggering events that occurred during the reporting period but that based on facts and circumstances as of the end of the reporting period are not considered triggering events. Some user feedback indicated that the triggering event itself has informational value. However, the Board considered that users of financial statements of private companies and not-for-profit entities tend to have greater access to management than users of public company financial statements. Therefore, users of financial statements may have access to information that may indicate that an entity is undergoing operational distress. Additionally, the Board concluded that there are existing disclosure requirements for an impairment event (paragraphs 350-20-50-2 through 50-3 for entities not electing the accounting alternative for amortizing goodwill and paragraphs 350-20-50-6 through 50-7 for entities that do elect the accounting alternative for amortizing

goodwill) that require an entity to disclose the facts and circumstances surrounding the impairment. In addition, disclosure of potential triggering events would represent a significant expansion of disclosure requirements for private companies and would represent a disclosure of a potential impairment that has not occurred.

BC52. Certain stakeholders indicated that requiring disclosure of triggering events that are not present as of the end of the reporting period may reduce the relief provided by the alternative because entities would be required to monitor for triggering events during the reporting period even if they are not present or evaluated as of the end of the reporting period, whether the reporting period is an interim or annual period.

Effective Date and Transition

BC53. The Board decided that the amendments in this Update should be effective for annual reporting periods beginning after December 15, 2019.

BC54. The Board decided that the amendments in this Update should be applied on a prospective basis. Retrospective application would potentially result in the reversal of interim impairment charges recognized in prior years if the facts and circumstances that led to those impairment charges had changed by year-end, which may cause additional cost and complexity.

BC55. The Board also decided to allow entities within the scope to early adopt the amendments for interim and annual financial statements not yet issued or made available to be issued as of March 30, 2021. The Board determined that in the year of adoption an entity should apply the amendments prospectively to the reporting period(s) not yet issued, whether the reporting period is an interim or annual period. An entity should not retroactively adjust any period already issued, even if that period is an interim period issued within the year of adoption. The Board concluded that relief from the assessment of goodwill impairment triggering events during the reporting period is an acceptable change that reduces cost and complexity and therefore should be made available to as many entities as possible, including those with non-calendar year-ends or who had not previously issued financial statements for other reasons.

BC56. Like other private company accounting alternatives, the Board decided to provide an unconditional one-time election for entities within the scope of the amendments to elect the accounting alternative on a prospective basis after its effective date without having to apply the guidance in Topic 250. Topic 250 requires an entity electing an accounting alternative after its effective date to support that the alternative is preferable and to apply the accounting change on a

retrospective basis. In Accounting Standards Update No. 2016-03, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance*, the Board allowed entities that elect private company alternatives existing at that time to adopt on this basis and recommended that the Board consider allowing similar transition provisions when providing future private company accounting alternatives.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update do not require improvements to the GAAP Financial Reporting Taxonomy and the SEC Reporting Taxonomy.