

Heads Up

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New Year, New Test?

FASB Proposes Amendments to Guidance on Impairment Testing of Indefinite-Lived Intangible Assets

by Stuart Moss, Courtney Sachtleben, and Amy Zimmerman, Deloitte & Touche LLP

Introduction

On January 25, 2012, the FASB issued a proposed ASU¹ that would amend the guidance in ASC 350-30² on testing indefinite-lived intangible assets for impairment. The proposal is being issued in response to feedback received on the FASB's recently issued ASU 2011-08,³ which amended the requirements for performing the goodwill impairment test.

Under the proposed ASU, an entity testing indefinite-lived intangible assets for impairment would have the option of performing a qualitative assessment to determine whether it is more likely than not (i.e., a likelihood of more than 50 percent) that the asset is impaired. If the entity determines, on the basis of qualitative factors, that the carrying amount of an indefinite-lived intangible asset is more likely than not less than its fair value, the entity would not be required to apply the current guidance in ASC 350-30, under which an entity must calculate the fair value of the asset. The proposed ASU does not change (1) the initial measurement or recognition of indefinite-lived intangible assets, (2) the requirement to test annually for impairment, or (3) the disclosure requirements for public entities. However, the proposal would relieve nonpublic companies from having to "disclose the quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy . . . that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition."

Comments on the proposed ASU are due by April 24, 2012.

Overview of the Proposed Amendments

Scope

The proposed ASU applies to public and nonpublic entities that record indefinite-lived intangible assets on their balance sheet.

Editor's Note: The Board contemplated excluding certain indefinite-lived intangible assets, such as in-process research and development, from the scope of the proposed ASU. However, since the qualitative assessment would be optional and might be appropriate for such assets, the Board ultimately decided not to restrict the proposal's scope.

¹ FASB Proposed Accounting Standards Update, *Testing Indefinite-Lived Intangible Assets for Impairment*.

² For titles of *FASB Accounting Standards Codification (ASC)* references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

³ FASB Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment*.

Qualitative Assessment

Under the proposed ASU, an entity must test an indefinite-lived intangible asset for impairment (1) annually and (2) between annual tests if certain events or circumstances indicate that the asset may be impaired; a loss is recognized for the excess of the asset's carrying amount over its fair value. However, an entity would have the option of first performing a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. If so, the entity would calculate the asset's fair value and would recognize as a loss any excess of the asset's carrying amount over its fair value. However, if it is more likely than not that the carrying amount of the indefinite-lived intangible asset is less than its fair value, no further procedures would be warranted. Because the qualitative assessment would be optional, entities may bypass it for any indefinite-lived intangible asset in any period. Further, because the option would be unconditional, an entity may continue to perform the qualitative assessment in any subsequent period.

As part of the qualitative assessment, entities would evaluate events and circumstances that may affect the significant inputs into the calculation of the asset's fair value and that would replace the current interim-period impairment indicators in ASC 360-10-35-21. ASC 350-20-35-3C(a)–(e) (added by ASU 2011-08) list the following examples (not all-inclusive) of such events or circumstances:

- a. Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets
- b. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development
- c. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows
- d. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods
- e. Other relevant entity-specific events such as changes in management, key personnel, strategy or customers; contemplation of bankruptcy; or litigation.

The proposed ASU indicates that an entity should also consider the following factors when performing the qualitative assessment:

- Whether the carrying amount of the indefinite-lived intangible asset has changed.
- The potential impact of "adverse events and circumstances" on the estimated fair value.
- Whether certain "positive and mitigating events and circumstances" are present.
- The difference between the amount of the most recent fair value calculation and the current carrying amount.

Editor's Note: In the proposed ASU's Basis for Conclusions, the Board suggested that when applying the qualitative assessment, an entity should also consider the amount of time that has passed since the previous calculation of fair value. Specifically, paragraph BC12 states that the "more time that elapses . . . the more difficult it may be to make a conclusion based solely on a qualitative assessment of relevant events and circumstances."

Disclosures

For public entities, the proposed ASU does not contain any new or amended disclosure requirements related to an entity's impairment analysis of indefinite-lived intangible assets. However, the proposal would eliminate the requirement for nonpublic entities "to disclose the quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition."

Effective Date and Transition

The proposed amendments would be effective for annual and interim impairment tests performed for fiscal years beginning after June 15, 2012. Early adoption would be permitted.

In addition, an entity would have the option of applying the proposed amendments to an "annual and interim impairment tests performed as of a date before . . . the issuance date of the final amendments, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance."

Editor's Note: For example, assume that the final standard is issued on June 1, 2012, and that an entity's annual impairment test measurement date for indefinite-lived intangible assets is May 31, which is before the entity's year-end (e.g., December 31). In this situation, an entity would be permitted to perform the qualitative analysis for its May 31, 2012, annual impairment test as long as its financial statements have not yet been issued or made available for issuance.

Convergence With IFRSs

Under IAS 36,⁴ an entity tests an indefinite-lived intangible asset for impairment at least annually by comparing the asset's carrying value with its recoverable amount. If there is any indication that impairment exists during an interim period, the entity must test the asset for impairment.

Regarding the convergence of U.S. GAAP and IFRSs, the proposed ASU states that "[t]he Board recognizes that the guidance in Topic 350 and IAS 36 will not converge as a result of these proposed amendments. The Board concluded that such an effort is beyond the scope of this proposed Update and can only be approached by more broadly addressing these and other differences in impairment guidance between U.S. GAAP and IFRS."

⁴ IAS 36, *Impairment of Assets*.

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