AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT
FASB

SUBJECT

FASB ISSUES FINAL ACCOUNTING STANDARDS UPDATE (ASU) ON TESTING INDEFINITE-LIVED INTANGIBLE ASSETS FOR IMPAIRMENT

SUMMARY

On July 27, 2012, the FASB issued ASU 2012-02, *Intangibles—Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment*. The ASU provides entities with an option to first assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If an entity concludes that it is more than 50% likely that an indefinite-lived intangible asset is not impaired, no further analysis is required. However, if an entity concludes otherwise, it would be required to determine the fair value of the indefinite-lived intangible asset to measure the amount of actual impairment, if any, as currently required under US GAAP.

Background: During the FASB's recent project to provide a similar qualitative option related to goodwill impairment testing,[1] many preparers requested the same relief for indefinite-lived intangible assets. At that time, the Board decided to finalize the goodwill project as soon as possible without expanding its scope, but agreed to address indefinite-lived intangible assets in a separate project, which resulted in this ASU. Its objective is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets other than goodwill. The ASU may be accessed here.

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[1] Refer to FASB ASU No. 2011-08, *Testing Goodwill for Impairment; BDO Flash Report: FASB Approves Cost-Saving Measure for Goodwill Impairment Tests That May Impact 3Q 2011 Reports* and *BDO Knows: Goodwill Impairment* for more information.

Scope, Effective Date and Transition: The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. This includes annual and interim impairment tests performed as of a date prior to July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for non-public entities, have not yet been made available for issuance.

Main Provisions:

- *Unrestricted option*: An entity has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to calculating its fair value. An entity is able to resume performing the qualitative assessment in any subsequent period.

- *Qualitative assessment*: If the option is elected, an entity would assess the totality of events or circumstances to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. The ASU includes a list of factors to be considered in the qualitative assessment.[2] Factors to be considered include, but are not limited to - cost factors like material and labor, financial performance such as cash flows, legal/regulatory/contractual concerns, industry and market considerations, macroeconomic conditions, and other relevant entity-specific events like changes in management, key personnel or strategy that may affect the significant inputs used to determine the fair value of the indefinite-lived assets.[3] All relevant events and circumstances that may affect the significant inputs used in determining the intangible asset's fair value must be considered. However, no single factor is necessarily determinative of the need to calculate the asset's fair value.

- *Recent valuation reports/fair value calculations*: If an entity has a recent fair value calculation for the indefinite-lived intangible asset, any difference between that fair value estimate and the carrying amount at that time should be considered in reaching a conclusion as to whether the indefinite-lived intangible asset is currently impaired.

- *Disclosures for private companies:* Private entities are not required to disclose the quantitative information in ASC 820-10-50-2(bbb) about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy for an indefinite-lived intangible asset after its initial recognition. The FASB noted that users of private company financial statements are often able to obtain additional information from management about the impairment. In many cases, these conversations occur before financial statements are issued.

Judgment will be required to perform the qualitative assessment, particularly when evaluating the potential effect of multiple relevant factors. For example, the fair value of certain indefinite-lived intangible assets, such as in-process research and development assets, may involve significant uncertainties. In this context, the FASB believes an entity should assess the reliability of the factors evaluated during the qualitative assessment. If it's not possible for an entity to make a positive assertion that the indefinite-lived intangible asset is not impaired, a fair value calculation is required.

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[2] The factors to be considered in the impairment analysis represent a change from the exposure draft, which simply referred entities to the list of impairment indicators included in the goodwill impairment literature. The final amendments include specific factors (many of which are similar to the goodwill impairment literature) and clarified that they should be considered if they "could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset."
[3] Refer to ASC 350-30-35-18B.