

## Impairment Testing – Big news from the FASB. Given market volatility, do you need to test for impairment now?

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### FASB Removes the Goodwill Project from its Active Agenda

After four years of research and stakeholder feedback, the Financial Accounting Standards Board (FASB) decided to remove the project for changes in the accounting of goodwill from its active agenda on June 15, 2022. The FASB was considering a new model where public companies would amortize the value of goodwill over time, rather than the current model of carrying it on their books and re-assessing its value periodically or when deemed necessary (i.e., after triggering events, etc.) through impairment testing.

In general, when the FASB considers adding projects to its established agenda, it applies the below criteria

1. There is an identifiable and sufficiently pervasive need to improve GAAP;
2. There are technically feasible solutions, and the perceived benefits of those solutions are likely to justify the expected costs of change;
3. The issue has an identifiable scope.

Although all of the three criteria were met when the FASB decided to add the accounting of goodwill project to its agenda, the FASB decided to deprioritize and remove the project from its technical agenda.

Stakeholder feedback on the various models the FASB was considering seems to be among the main reasons the FASB halted the project. According to information published by the FASB, there were a total of 101 respondents to the FASB's invitation to comment (ITC), a mix of academics, professional associations, auditors, preparers, users, and valuation professionals, among other. The reported results of the ITC reflected varied opinions on the topics covered, including the subsequent accounting for goodwill through different models and, if amortization is appropriate, the appropriate period(s) to be used. Some of the amortization models considered by FASB were over 10 years or an estimated period of up to 25 years.

Some of the criticisms from investors included that the amortization of goodwill does not help them conduct their investment analysis (as investors gain meaningful information on the strength and effectiveness of management teams through the periodic assessment of goodwill), as well as that there should be an alignment on any changes between the FASB and the International Accounting Standards Board (IASB). In addition, the CFA Institute had expressed serious concerns about the possible return back to amortizing goodwill, a practice that was abandoned in 2001.

The FASB itself might add the project back to its main agenda if it receives more information or sees a new reason for making the change, but according to the FASB Chairman, Richard Jones, "this would be a very significant change – I think you need a case for change, and as I see it, as this is stacking up it doesn't, [but] we may be able to bring it back again one day."

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## As a business leader, when do you need to think about impairment testing?

Impairment testing is typically done annually or when a triggering event happens (if earlier than the scheduled annual test). Events both inside and outside of a company can cause a triggering event.

But what can be a triggering event?

- Macroeconomic conditions
  - Deterioration in the general economy
  - Significant changes in both the equity and credit markets
  - Significant decrease in market prices
- Industry and market considerations
  - Deterioration in the environment in which the company operates
- Cost factors
  - Increases in the cost of raw materials or labor
  - Supply chain issues delaying sales or making them more expensive
- Company-specific events
  - Declining financial performance compared to projections or recent periods
  - Sustained decrease in share price
  - Changes in management or key personnel
  - Changes in strategy or customers (e.g., loss of a major customer)
  - Litigation
  - Expectation of disposing all or a portion of the reporting unit



If you are concerned that one of the above events is affecting your company, let's talk. Empire Valuation Consultants has over 30 years of experience in valuing assets for financial reporting purposes and we are here to help. Please contact us to set up a free consultation.

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