

# Qualitative impairment assessment of indefinite-lived intangible assets

August 22, 2012

To simplify the process of testing indefinite-lived intangible assets for impairment and to improve consistency in the impairment testing guidance for long-lived assets, in July 2012 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-02, [\*Intangibles—Goodwill and Other \(Topic 350\): Testing Indefinite-Lived Intangible Assets for Impairment\*](#). Prior to the issuance of this ASU, the guidance in Subtopic 350-30, “Intangibles—Goodwill and Other – General Intangibles Other than Goodwill,” of the FASB’s Accounting Standards Codification (ASC or Codification) required an entity to test an indefinite-lived intangible asset for impairment on at least an annual basis by comparing the fair value of the asset with its carrying amount (this comparison is referred to herein as the quantitative impairment test). If the carrying amount of the asset exceeded its fair value, an impairment loss was recognized in an amount equal to the difference. ASU 2012-02 gives an entity the option in its annual impairment test of an indefinite-lived intangible asset to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An entity electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset (and perform the quantitative impairment test) unless the entity determines, based on the qualitative assessment, that it is more likely than not that the asset is impaired. ASU 2012-02 does not change how an entity measures an impairment loss.

If an entity elects to perform a qualitative assessment, the following factors from ASC 350-30-35-18B (which was added by the ASU) should be assessed to the extent they could affect significant inputs used to estimate the fair value of the indefinite-lived intangible asset being tested for impairment:

- Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows
- 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
- Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors

- Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
- 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 (in both absolute terms and relative to peers), or a change in the market for an entity's products or services due to the effects of obsolescence, demand, competition, or other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing business environment, and expected changes in distribution channels)
- Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets

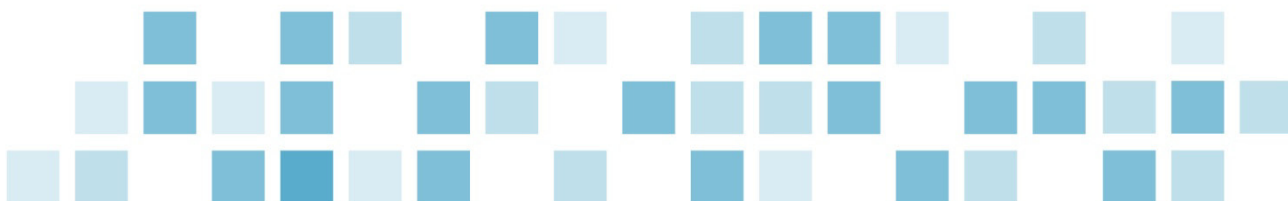
These factors are not all-encompassing and only represent certain adverse events or circumstances (among others) that may affect significant inputs used to estimate the fair value of the indefinite-lived intangible asset being tested for impairment. For example, a recent fair value calculation for the indefinite-lived intangible asset also would be an important piece of information that should be considered along with any changes in the carrying amount of the indefinite-lived intangible asset. No one factor in isolation would necessarily lead to a conclusion that an entity should perform the quantitative impairment test. Furthermore, positive events or circumstances may exist to mitigate the effect of the adverse events or circumstances identified, and these should be considered as well in the qualitative assessment. An entity should consider the extent to which all relevant events and circumstances, both individually and in the aggregate, could have affected the significant inputs used to estimate the fair value of the indefinite-lived intangible asset since the last impairment analysis.

### Interim impairment testing

Prior to issuance of ASU 2012-02, Subtopic 350-30 referred to impairment indicators included in Topic 360, *Property, Plant, and Equipment*, of the Codification for purposes of determining whether an indefinite-lived intangible asset should be tested for impairment on an interim basis. This reference to Topic 360 was removed and replaced with the qualitative factors included in the ASU and listed earlier. As a result, an entity evaluating whether an indefinite-lived intangible asset should be tested between annual impairment testing dates must consider these new qualitative factors when assessing whether the asset is more-likely-than-not impaired.

### Effective date

The amendments are effective for annual and interim impairment tests performed in fiscal years beginning after September 15, 2012. Early adoption is permitted (including for impairment tests to be performed as of a date prior to the issuance of the ASU – July 27, 2012) if a public entity has not yet issued its financial statements (or if a nonpublic entity has not yet made its financial statements available for issuance) for the most recent annual or interim period and has not yet performed its



impairment test. For example, assume a nonpublic entity with a calendar year end performs its annual impairment test as of June 30. If the entity has not performed its 2012 annual impairment test prior to the issuance of the ASU and has not made financial statements that include June 30, 2012 available for issuance, it would be allowed to adopt the ASU for its 2012 annual impairment test.

### Important adoption considerations

As noted previously, the qualitative assessment allowed by the ASU is completely optional on an indefinite-lived intangible asset-by-asset basis. In other words, the qualitative assessment can be performed on some, none or all of an entity's indefinite-lived intangible assets. Furthermore, an entity is not required to consistently perform a qualitative assessment at each annual testing date. For example, an entity may:

- Perform a qualitative assessment for an indefinite-lived intangible asset in one year and then skip the qualitative assessment and go straight to the quantitative impairment test in the following year;
- Perform a qualitative assessment for all indefinite-lived intangible assets in one year and then qualitatively assess only certain indefinite-lived intangible assets in the following year (with other indefinite-lived intangible assets tested using the quantitative impairment test); or
- Perform the quantitative impairment test for all indefinite-lived intangible assets in one year and then qualitatively assess all indefinite-lived intangible assets in the following year.

When considering whether to perform a qualitative assessment, an entity should closely evaluate the results of its prior-period quantitative impairment tests for each indefinite-lived intangible asset. Those indefinite-lived intangible assets for which the fair value was greater than the carrying amount by a substantial margin in the prior period would likely be good candidates for the qualitative assessment. However, for those indefinite-lived intangible assets that were impaired or for which the fair value was not greater than the carrying amount by a substantial margin in the prior period, an entity may be better off by simply going straight to the quantitative impairment test and skipping the qualitative assessment. This is because it may be very difficult under those circumstances to qualitatively support that it is not more likely than not that the indefinite-lived intangible asset is impaired. As the entity would often still conclude it was necessary to perform the quantitative impairment test in those circumstances, performing the qualitative assessment first may lead to unnecessary additional work. Furthermore, the more time that passes since the last quantitative impairment test, the more difficult it becomes to conclude based solely on a qualitative assessment that an indefinite-lived intangible asset is not more likely than not impaired.



Consider an entity with two indefinite-lived intangible assets with prior-period quantitative impairment test results as follows:

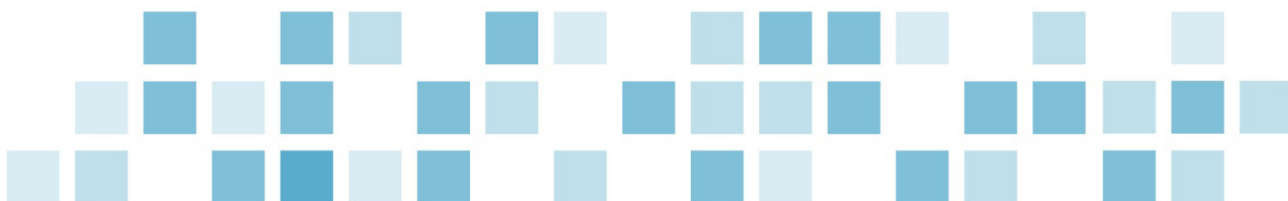
	Trademark	Broadcast license
Fair value	\$25M	\$16M
Carrying amount	\$15M	\$15M
Headroom	\$10M	\$1M

Prior to considering any other events or circumstances specific to each indefinite-lived intangible asset, the trademark would appear to be a good candidate for the qualitative assessment in the year ASU 2012-02 is adopted based on its prior-period quantitative impairment test, while the broadcast license would not. Obviously, all other events and circumstances must ultimately be considered when making this determination, but we believe the prior-period quantitative impairment test is a good starting point.

When performing a qualitative assessment, significant judgment will be required. To support this judgment, it is very important for an entity to sufficiently document its: (a) determination of the significant inputs used to estimate the fair value of each indefinite-lived intangible asset (considering the valuation method(s) that would be used in a quantitative impairment test) and (b) evaluation of all relevant events and circumstances that could impact those inputs. In the Basis for Conclusions to the ASU, the FASB acknowledged this: “In connection with the annual testing requirement, the Board intends for an entity to make a positive assertion about its conclusion reached and the events and circumstances taken into consideration if it determines that it is not more likely than not that the indefinite-lived intangible asset is impaired.”

### Near-term action items

Entities should begin to evaluate whether they plan to utilize the qualitative assessment option allowed by the ASU. If so, they should determine when they plan to adopt the guidance, which indefinite-lived intangible assets will be qualitatively assessed, and what the assessment process will consist of, including the evaluation and documentation of each of the significant inputs used to estimate fair value and the relevant qualitative factors. We strongly encourage entities to communicate with their auditors early in the evaluation process to ensure all the appropriate considerations are addressed and documented.



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