

Heads Up

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Synchronized Testing

FASB Finalizes Amendments on Testing Indefinite-Lived Intangible Assets for Impairment

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On July 27, 2012, the FASB issued [ASU 2012-02](#),¹ which amends the guidance in ASC 350-30² on testing indefinite-lived intangible assets, other than goodwill, for impairment. The Board is issuing the ASU in response to feedback on ASU 2011-08,³ which amended the goodwill impairment testing requirements by allowing an entity to perform a qualitative impairment assessment before proceeding to the two-step impairment test. Similarly, under ASU 2012-02, an entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not (i.e., a likelihood of more than 50 percent) impaired, the entity would not need to calculate the fair value of the asset. The ASU does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the ASU does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods.

ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

Overview of the Amendments

Qualitative Assessment

Under current U.S. GAAP, entities must test indefinite-lived intangible assets for impairment at least annually by calculating and comparing an asset's fair value with its carrying amount. An impairment loss would be recorded for an amount equal to the excess of the asset's carrying amount over its fair value.

The ASU gives an entity the **option** of first performing a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. When performing the qualitative assessment, the entity must evaluate events and circumstances that may affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. If, on the basis of the qualitative assessment, an

¹ FASB Accounting Standards Update No. 2012-02, *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*.

entity determines that it is more likely than not that the indefinite-lived intangible asset is impaired, the entity would proceed to the quantitative impairment test in ASC 350-30, under which it would calculate the asset's fair value. Because the qualitative assessment is optional, the entity may proceed directly to the quantitative impairment test and subsequently resume performing the qualitative impairment assessment for any indefinite-lived intangible asset in any future period.

Editor's Note: In the ASU's Basis for Conclusions, the FASB clarifies that if an entity elects to bypass the qualitative assessment and quantitatively calculate the fair value of the indefinite-lived intangible asset, the entity would not be required to consider and evaluate the qualitative factors.

ASC 350-30-35-18B (added by the ASU) gives the following examples (not all-inclusive) of events and circumstances that an entity may consider in the qualitative assessment:

- a. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- b. 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 that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- c. Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- d. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- e. 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) that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- f. 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 that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

An entity should also consider:

- "Positive and mitigating events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset." However, positive and mitigating evidence should not be viewed as a rebuttable presumption that an entity does not need to perform the quantitative fair value calculation.
- The difference between the carrying amount and the recently calculated fair value of the indefinite-lived intangible asset.
- Whether the carrying amount of the indefinite-lived intangible asset has changed.

The events and circumstances that have an impact on the inputs used to determine the most recent fair value of the indefinite-lived intangible asset should be evaluated individually and in their totality as a result of weighing the significance of each factor to determine whether it is more likely than not that the asset is impaired.

The events and circumstances that have an impact on the inputs used to determine the fair value of the indefinite-lived intangible asset should be evaluated individually and in their totality as a result of weighing the significance of each factor to determine whether it is more likely than not that the asset is impaired.

The amendments are effective for annual and interim impairment tests performed in fiscal years beginning after September 15, 2012. Early adoption is permitted.

Editor’s Note: While the Board decided not to include in the guidance a specific length of time between the impairment testing date and the most recent calculation of fair value, paragraph BC15 of the ASU’s Basis for Conclusions notes that “the more time that elapses since an entity last calculated the fair value of an indefinite-lived intangible asset, the more difficult it may be to make a conclusion about whether it is more likely than not that an indefinite-lived intangible asset is impaired solely on the basis of a qualitative assessment of relevant events and circumstances.”

Evaluating Indefinite-Lived Intangible Assets for Impairment on an Interim Basis

ASU 2012-02 states that indefinite-lived intangible assets “shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.” The ASU removed a reference to ASC 360-10-35-21 that included examples of impairment indicators and replaced them with the qualitative assessment factors in ASC 350-30-35-18B (cited above).

Editor’s Note: Although the factors to consider between impairment tests have changed, the Board’s intent is not to change the process of evaluating these factors in interim reporting periods. At a recent meeting, Board members further clarified that the intent of the interim assessment is to evaluate changes in those events and circumstances identified as part of the most recent impairment assessment. Specifically, an entity should evaluate the factors that have an impact on the significant inputs of the asset’s fair value calculation to determine whether it is more likely than not that the indefinite-lived intangible asset may be impaired. If so, the entity would then perform an impairment assessment in the interim period.

Disclosures

The ASU does not require public entities to provide any new or amended disclosures regarding their analysis of indefinite-lived intangible assets for impairment. However, it does clarify that nonpublic entities are not required to disclose the “quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 . . . that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition.”

Scope

ASU 2012-02 applies to public and nonpublic entities that have indefinite-lived intangible assets, other than goodwill, on their balance sheet.

Effective Date and Transition

The amendments are effective for annual and interim impairment tests performed in fiscal years beginning after September 15, 2012. Early adoption is permitted.

In addition, ASC 350-30-65-3 (added by the ASU) indicates that an entity may apply the amendments, including the qualitative analysis, to annual or interim impairment tests performed as of a date before July 27, 2012, as long as the financial statements have not yet been issued or made available for issuance.

Editor’s Note: An entity’s annual impairment test date may be before year-end (e.g., June 30). In this situation, an entity would be permitted to perform the qualitative analysis for its June 30, 2012, annual impairment test as long as the 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. In addition, under IAS 36, if certain conditions are met, an entity is permitted to carry forward a recent calculation of the recoverable amount for the current impairment test. ASU 2012-02 does not result in convergence of the guidance in U.S. GAAP and IFRSs. The Board stated that convergence efforts are "beyond the scope of this 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*.

Appendix — Considerations Related to Applying the Guidance in ASU 2012-02

The qualitative impairment assessment for indefinite-lived intangible assets that is outlined in ASU 2012-02 is highly subjective and will most likely require complex management estimates. Entities that elect to perform the qualitative impairment assessment should consider the following:

- Will a third-party valuation specialist be engaged to perform the qualitative analysis, or do internal personnel have the requisite skills to do so?
- What existing controls need to be modified, and what additional controls need to be designed, to address new risks of material misstatement related to the qualitative analysis? Given the recent issuance of ASU 2012-02, will these new controls be implemented in a timely manner?
- What supporting documentation will be available to substantiate the conclusions about each of the events and circumstances considered in the qualitative assessment?
- Is the most recent determination of fair value a good proxy for the current-period fair value? (i.e., Has a lot of time elapsed since the most recent valuation? Did the most recently determined fair value exceed the carrying amount by a significant margin?)

In addition, a thoughtful assessment and robust documentation would be necessary for an entity to assert, on the basis of qualitative factors, that an indefinite-lived intangible asset is not more likely than not impaired. The assessment will vary from entity to entity and asset by asset; however, an entity's assessment should focus on the specific events and circumstances that may affect the significant inputs used to derive the fair value of the indefinite-lived intangible asset. To do so, an entity must first understand the valuation method used in the most recent fair value calculation and must then determine the significant inputs. Depending on the valuation method used, the significant inputs affecting the fair value may be different.

Once the significant inputs are identified, an entity is required to evaluate events and circumstances that have occurred since the most recent fair value calculation to determine what impact (i.e., positive or negative), if any, these might have on the assessment of whether a particular indefinite-lived intangible asset is more likely than not impaired. The ASU provides examples of events and circumstances that an entity may consider, but entity- or asset-specific facts and circumstances should also be considered in this assessment. Since an entity performing the assessment may identify positive, mitigating, and negative factors affecting the fair value, an entity must weigh these factors on the basis of their significance relative to the asset's fair value. More weight should be placed on events and circumstances that may have the greatest impact.

An entity's assessment should document the considerations and facts used in making the assertion that an indefinite-lived intangible asset is not more likely than not impaired. For factors that an entity identified as being most relevant to the determination of an asset's fair value, a more robust analysis should be performed and documented. This assessment may consist of a quantitative analysis to support the qualitative conclusions. In addition, an entity may look to independent sources (i.e., market royalty rates, foreign currency fluctuations, changes in regulations or laws) when performing and supporting its assessment. The level of documentation will vary on the basis of individual entity- and asset-specific factors.

An entity will need to exercise significant judgment in performing the qualitative impairment assessment. To support its assertion that its indefinite-lived intangible asset is not more likely than not impaired, the entity should evaluate and compile a thorough and well-documented analysis of all relevant events, circumstances, and supporting evidence considered.

See Deloitte's [Qualitative Goodwill Impairment Assessment — A Roadmap to Applying the Guidance in ASU 2011-08](#) for additional considerations related to applying the qualitative impairment assessment.

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