Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** *ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities.*

**Check (applicable entity):**

 P/C Life Health

Modification of existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

In 2014, the FASB issued 1) *ASU 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, and 2) *ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*, which simplify the subsequent accounting for goodwill and certain identifiable intangible assets in business combinations. Those amendments were in response to concerns expressed by private companies regarding the cost and complexity of goodwill impairment tests and the accounting for certain identifiable intangible assets. When FASB issued both updates, it acknowledged that the issues addressed were not limited to private companies; they also pertain to not-for-profit entities.

Accordingly, FASB received feedback questioning the relevance and benefit of an impairment-only approach to goodwill and the accounting for identifiable intangible assets acquired in an acquisition by a not-for-profit entity. By providing an accounting alternative, this update will reduce the cost and complexity associated with the accounting for goodwill and the measurement of certain acquired identifiable intangible assets without significantly diminishing decision-useful information in not-for-profit financial statements.

The amendments in this update extend the private company alternatives from Topic 350 (ASU 2014-02) and Topic 805 (ASU 2014-18) to not-for-profit entities. Under this update, an alternative accounting treatment is offered to where if elected, a not-for-profit entity shall amortize goodwill on a straight-line basis over the lesser of 10 years or the demonstrated useful life. Additionally, a not-for-profit entity that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. A not-for-profit entity is required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. Finally, certain identifiable intangible assets such as customer related intangibles (i.e. mortgage servicing rights) and noncompete agreements would no longer be separately recognized from goodwill.

Existing Authoritative Literature:

The existing guidance for goodwill and subsequent amortization is referenced in *SSAP No. 68—Business Combinations and Goodwill* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.*

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS):**

IFRS standards do not provide industry guidance for not-for-profit entities regarding goodwill. However, the IASB is currently reviewing if it should retain the existing impairment only model for the subsequent accounting of goodwill, or reintroduce an amortization method, as noted in IFRS Agenda Paper 18B.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 68 and SAP No. 97 to reject ASU 2019-06 for statutory accounting.

While the initial calculation of goodwill was not in scope of ASU 2019-06, this update provides optionality of an alternative accounting treatment for the straight-line amortization of goodwill for not-for-profit entities over the lesser of 10 years or the demonstrated useful life, subject to an impairment analysis performed in the event a triggering event occurs. Additionally, certain other identifiable intangible assets are no longer separately recorded and shall be combined into goodwill. As a point of reference, ASU 2019-06 is an extension of ASU 2014-02 to not-for-profit entities; ASU 2014-02 was previously rejected for SSAP.

This item is proposed to be rejected as ASU 2019-06 provides alternative accounting treatments for goodwill. Optionality treatment is not consistent with SSAP 68, specifically paragraphs 7 & 8, and SAP 97; however current SSAP guidance is similar as goodwill shall be amortized over the period in which the acquiring entity benefits economically, not to exceed 10 years. Additionally, impairment analysis shall occur in the event that a decline in an acquired entity’s fair value, that is other than temporary, may be below its carrying amount.

Proposed Revisions to SSAP No. 68:

20. This statement rejects *ASU 2019-06, Intangibles—Goodwill and Other Business Combinations, and Non-for-Profit Entities, ASU 2017-04, Simplifying the Test for Goodwill Impairment*, *ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging*; *ASU 2014-02, Accounting for Goodwill (a consensus of the Private Company Council)*, *ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment*, *ASU 2011-08, Testing Goodwill for Impairment* and *ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*; *Accounting Principles Board Opinion No. 16,* *Business Combinations*; *FASB Statement No. 38,* *Accounting for Preacquisition Contingencies of Purchased Enterprises, an amendment of APB Opinion No. 16*; *Accounting Principles Board Opinion No. 17*, *Intangible Assets*; *FASB Statement No. 79,* *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises*; *FASB Statement No. 141, Business Combinations*;and *FASB Statement No. 142, Goodwill and Other Intangible Assets.* The following related interpretative pronouncements are also rejected*.*

Proposed Revisions to SSAP No. 97:

48. This statement rejects *ASU 2019-06, Intangibles—Goodwill and Other Business Combinations, and Non-for-Profit Entities, ASU 2011-10, Derecognition of in Substance Real Estate, APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, AICPA Accounting Interpretations APB 18,* *The Equity Method of Accounting for Investments in Common Stock:* Accounting Interpretations of *APB Opinion No. 18, FASB Technical Bulletin No. 79-19, Investor’s Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee, FASB Emerging Issues Task Force No. 87‑21, Change of Accounting Basis in Master Limited Partnership Transactions,* *FASB Emerging Issues Task Force No. 96-16, Investor’s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*, *FASB Emerging Issues Task Force No. 98-2: Accounting by a Subsidiary or Joint Venture for an Investment in the stock of Its Parent Company or Joint Venture Partner* and *FASB Staff Position No. APB 18-1*, *Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence.*

Staff Review Completed by: Jim Pinegar – June 2019

Status:

On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 68—Business Combinations and Goodwill* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, as illustrated above, to reject *ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities* for statutory accounting.

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