FASB In Focus

Accounting Standards Update for Private Companies

Accounting for Identifiable Intangible Assets in a Business Combination

Background

On December 23, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination,* which is based on a consensus reached by the Private Company Council (PCC). The guidance in the Update provides private companies an accounting alternative to recognize fewer intangible assets in a business combination separate from goodwill.

The PCC and the FASB received input from private company stakeholders indicating that the benefits of the current requirements relating to the accounting for identifiable intangible assets acquired in a business combination do not justify the related costs.

The PCC and the Board concluded that this accounting alternative will, for private companies, avoid the unnecessary costs and complexity encountered when measuring certain customer-related intangible assets and noncompetition agreements.

Furthermore, because customer-related intangible assets and noncompetition agreements often do not meet the typical characteristics of intangible assets that users find most relevant (legally protected, separately transferable, and capable of providing discrete cash flows), the PCC and the Board concluded that this alternative will not result in a significant reduction in useful information.

This accounting alternative will, for private companies, avoid the unnecessary costs and complexity encountered when measuring certain customer-related intangible assets and non-competition agreements.

What Are the Main Provisions?

A private company that elects this accounting alternative for the recognition of certain intangible assets acquired in a business combination would no longer recognize separately from goodwill:

1. Customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business, and
2. Noncompetition agreements.

Many customer-related intangible assets, because they are not capable of being sold or licensed independently from the other assets of the business, would not be separately recognized under this accounting alternative.

However, some customer-related intangible assets would continue to be separately recognized—such as mortgage servicing rights, commodity supply contracts, core deposits, and customer information (for example, names and contact information).

A private company that elects the accounting alternative in this Update must also adopt the private company alternative to amortize goodwill as described in FASB Accounting Standards Update No. 2014-02, I*ntangibles—Goodwill and Other (Topic 350): Accounting for Goodwill.*

However, a private company that elects the accounting alternative in Update 2014-02 is not required to adopt the amendments in this Update.

Who Will Be Affected by the Update?

The accounting alternative applies when a private company is required to recognize or otherwise consider the fair value of intangible assets as a result of any one of the following transactions:

a. Applying the acquisition method under Topic 805, Business Combinations

b. Assessing the nature of the difference between the carrying amount of an investment and the amount of underlying equity in net assets of an investee when applying the equity method under Topic 323 on investments—equity method and joint ventures, or

c. Adopting fresh-start reporting in accordance with Topic 852 on reorganizations.

Publicly traded companies and not-for-profit organizations are not permitted to elect this accounting alternative.

Public companies and not-for-profits are not permitted to elect the alternative, but the Board added a separate project to its agenda to consider the applicability to public companies and not-for-profits.

However, the Board has added a separate project to its agenda to consider the applicability of this accounting alternative to publicly traded companies and not-for-profit organizations.

When Will the Amendments Be Effective?

The decision to adopt the accounting alternative must be made upon the occurrence of the first transaction within the scope of this accounting alternative in fiscal years beginning after December 15, 2015, and the effective date of adoption depends on the timing of that first transaction.

- If the transaction occurs in the first fiscal year beginning after December 15, 2015, the elective adoption will be effective for that fiscal year's annual financial reporting and all interim and annual periods thereafter.
- If the transaction occurs in fiscal years beginning after December 15, 2016, the elective adoption will be effective in the interim period that includes the date of that first transaction and subsequent interim and annual periods thereafter.

Customer-related intangible assets and noncompetition agreements that exist as of the beginning of the period of adoption would continue to be subsequently measured in accordance with Topic 350 on intangibles—goodwill and other.

That is, existing customer-related intangible assets and noncompetition agreements should not be subsumed into goodwill upon adoption of this accounting alternative.

Early application is permitted for any interim and annual financial statements that have not yet been made available for issuance.

More information on the alternative, including a press release, is available on the FASB website and the PCC website.

For more information about the project, please visit the FASB's website at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116
T: 203.847.0700 | F: 203.849.9714