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FASB: Updates from recent meeting

At its meeting on October 28, the Financial Accounting Standards Board (FASB) discussed the financial statements of not-for-profit entities, the accounting for identifiable intangible assets in a business combination, the subsequent measurement of goodwill, and targeted improvements for long-duration life insurance contracts. Highlights of the Board's discussion follows.

Financial statements of not-for-profit entities

The Board discussed feedback received on the proposed Accounting Standards Update (ASU), presentation of financial statements of not-for-profit entities, and tentatively decided to divide its redeliberations into two work streams.

Under the first work stream, the Board would reconsider the following issues, which are improvements that the Board might finalise in the near term that do not depend on other projects:

- net asset classification scheme, including disclosure of Board-designated funds, underwater endowments, and the placed-in-service option for expirations of capital restrictions;
- expenses, including expenses by nature and an analysis of expenses by function and nature; netting of external and direct internal investment expenses against investment return; disclosure of netted investment expenses; and enhanced disclosures about cost allocations;
- improvement of disclosures by not-for-profit entities that choose to present operating measures;
- improvement of disclosures of information useful in assessing liquidity; and
- methods of presenting operating cash flows.

The second work stream would include proposed changes that are likely to require more time to resolve because they either involve consideration of alternatives that the Board did not previously consider or are related to similar issues being addressed in other projects. These changes include:

- an assessment of operating measures, including whether to require intermediate measures, how to define the measures and what would be included in the measures, and stakeholder-suggested alternative disaggregation approaches; and
- realignment of certain line items in the statement of cash flows.

Accounting for identifiable intangible assets in a business combination

The Board tentatively decided to continue the project on whether to change the initial recognition of customer-relationship intangible assets or noncompetition agreements acquired in a business combination for public business entities. The Board asked the staff to conduct research on whether the usefulness of information provided by the recognition of acquired intangible assets is different for U.S. and international investors and, if applicable, to determine why any differences exist.

The Board deferred any decisions about whether not-for-profit entities could use the accounting alternative currently available to private companies or if they would be required to use the guidance for public business entities until decisions are made regarding whether to change the accounting for identifiable intangible assets for public business entities.

Subsequent measurement of goodwill

The Board tentatively decided to continue with the project on subsequent measurement of goodwill under a phased approach, as follows:

- first phase: simplify the impairment test by removing the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value (step two of the impairment model in current U.S. GAAP). The Board considered, but tentatively decided against, allowing entities an option to perform step two; and
- second phase: work with the IASB to address any additional concerns about the subsequent accounting for goodwill.

Additionally, the Board reached the following tentative decisions:

- not-for-profit entities would not be allowed to use the accounting alternative that is currently available to private companies;

- presentation requirements in current GAAP would not be changed;
- entities would be required to adopt the simplified impairment test prospectively; and
- if a reporting unit has zero or negative carrying value and it is more likely than not that goodwill is impaired, an entity would be required to write off the full carrying amount of goodwill allocated to that reporting unit.

The Board asked the staff to conduct research on the qualitative assessment for entities with reporting units with a zero or negative carrying value.

Targeted improvements for long-duration life insurance contracts

The Board tentatively decided that the liability for future policy benefits for participating life insurance contracts would be calculated on the basis of expected future cash flows, including dividends. Future cash flows would be discounted using a high-quality, fixed-income instrument yield.

The Board also tentatively decided that entities would be required to update cash flow assumptions using a retrospective approach and discount rate assumptions using an immediate approach. These changes are consistent with the Board's previous decision for traditional long-duration and limited-payment insurance contracts.

Under these assumption method updates, the net premium ratio would be recalculated as of the contract inception date using actual historical experience and updated future cash flow assumptions. The revised net premium ratio would be applied to derive a cumulative catch-up adjustment recorded in current-period earnings. In subsequent periods, the revised net premium ratio would be used to accrue the liability for future policy benefits. The net premium ratio would be capped at 100 percent. No updates to the net premium ratio for discount rate changes would be made; rather, the effect of changes in the discount rate assumption would be recorded immediately in other comprehensive income.

Contact us

Stephen Murray
Partner, Corporate Audit
E stephen.murray@ie.gt.com
D +353 (0)1 680 5689

Fergus Condon
Partner, Financial Accounting and Advisory Services (FAAS)
E fergus.condon@ie.gt.com
D +353 (0)1 680 5610

Louise Kelly
Partner, Corporate Audit
E louise.kelly@ie.gt.com
D +44 (0)28 9587 1100

24-26 City Quay, Dublin 2, D02 NY19

@GrantThorntonIE

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