Big M&A's Favorite Asset May Get an Accounting Break

By Denise Lugo, Checkpoint News

Companies that buy their way to growth—and stack up massive "goodwill" on the balance sheet—could get a break from one of corporate accounting's biggest annual headaches.

The Financial Accounting Standards Board (FASB) recently agreed to research a set of possible tweaks to goodwill impairment testing that could cut costs for companies—but critics worry it could also make it easier to hide a bad deal for longer.

This isn't about changing how goodwill is booked on Day 1 of an acquisition. It's about "Day 2" accounting: when companies have to check if goodwill is still worth what they say it is, and where in the company that check happens.

The Two Potential Changes on the Table:

1. Dump the annual "checkup" and go trigger-only

Right now, companies have to test goodwill for impairment at least once a year, plus anytime something ugly happens mid-year that could signal trouble. Many firms also do a softer "are we OK?" review first (often called "Step 0") to decide if they need the full-blown number-crunching test. Supporters of a trigger-only approach argue that even the "lighter" Step 0 work can be expensive in the real world.

Step 0 is "theoretically allowed" as a bypass, but "in practice, it was costly to prepare," in part because it's subject to "rigorous review and testing by auditors," said Scott Ehrlich, president of Mind the GAAP, LLC, on February 9, 2026.

Under a trigger-only model, the annual requirement could disappear. Instead, companies would only run an impairment test when there's a clear warning sign—think sustained performance drops, major negative market shifts, or other red flags. Ehrlich's bottom-line case is that trigger-only "should reduce cost and complexity," while still "maintaining decision-useful information" for investors.

Why companies would love it

- Fewer routine valuation exercises and fewer pricey outside specialists in stable years
- Less time spent building forecasts, memos, and audit-proof paperwork just to say "nothing changed"

Why investors might hate it

- Annual testing forces a regular, scheduled reality check
- Trigger-only means more management judgment on what "counts" as a trigger—raising the risk that write-downs come late, after the damage is obvious

And here's the catch: even if the annual test goes away, auditors and regulators could still expect companies to prove—every quarter or every year—that no trigger exists. If that happens, trigger-only could turn into "Step 0 forever," and the cost savings may be more hype than reality.

1. Test goodwill higher up the org chart: segments instead of reporting units

Today, goodwill is tested at the "reporting unit" level—a slice of the business that can be smaller than the operating segments investors see in segment reporting.

The FASB is looking at whether companies should be allowed (or required) to test at a higher level, like operating segments. Ehrlich backs that shift, arguing goodwill is fundamentally about "synergies"—from "cross-selling" to "cost savings"—that "often impact an entire segment."

Why that's easier

- Fewer buckets to test means fewer models, fewer forecasts, fewer valuation packages
- Less internal wrangling over defining reporting units and constantly defending how goodwill is allocated across them

Why that could be looser

- A higher-level test lets strong parts of a segment cover for weak parts—so bad acquisitions can be "hidden" by healthier businesses
- It gets harder for investors to connect a write-down to a specific acquisition and ask: Who approved this deal—and why?

Supporters dispute that the higher testing level automatically "hides" impairments. Ehrlich said he doesn't see how raising the level would "disguise" a loss "especially if the segment as a whole is performing well and synergies are being realized."

A drawback, he added, is that moving the test to operating segments could widen differences with international financial reporting.

A "Sidecar" Idea: More Disclosure About Triggers

If FASB goes trigger-only, there's also talk of requiring companies to spell out what triggered the test—even if no impairment is recorded.

That could give investors useful context (a trigger can be a warning sign by itself), but it also means more narrative disclosure work, controls, and audit scrutiny—potentially eating into the savings from fewer valuation exercises.

Who's Most Affected

If these changes become real GAAP, the biggest winners would likely be:

serial acquirers with big goodwill balances

companies with lots of reporting units inside a handful of segments

firms spending serious money on valuation specialists, forecasts, and audit support for impairment testing

Bottom Line

The FASB is poking at two levers—how often companies test goodwill and at what level they test it. Done right, it could mean fewer costly, repetitive valuations. Done wrong, it could mean investors get a slower, murkier signal when a splashy acquisition starts to sour.

Per February 4 **discussions**, the board will decide at a later meeting whether to put the issue on its formal agenda.

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