



August 22, 2013

Ms. Susan Cospers
Technical Director
File Reference No. PCC-13-01B
Financial Accounting Standards Board
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PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Accounting for Goodwill, a proposal of the Private Company Council* (the “proposed standard”).

The proposed standard, in tandem with two other proposed Accounting Standards Updates, demonstrates the Private Company Council’s (the PCC) and the FASB’s (the Board) continuing efforts to address the specific financial reporting needs of preparers and users of private company financial statements. We support these efforts and encourage the PCC and the Board to continue to identify areas where either proposed or existing accounting standards may be modified to better support the needs of preparers and users of private company financial statements.

Notwithstanding our overall support of the Board’s and PCC’s objectives, we have concerns with the proposed standard because of the significant differences it would create between the financial reporting of goodwill by private companies and public companies. Rather, we would be supportive of a broader reconsideration of the financial reporting model for goodwill for all entities.

As discussed in our comment letter dated June 13, 2013 on the Board’s Invitation to Comment on the Private Company Decision-Making Framework (the Framework), we believe that in most cases the financial reporting that is relevant to users of public company financial statements is also relevant to users of private company financial statements. In addition, modifications to the recognition and measurement guidance for private companies should be rare and limited to instances where users of private company financial statements have clearly different information needs than users of public company financial statements. We believe the current proposal would fundamentally change the post-acquisition financial reporting model for goodwill, both in terms of recognition and measurement, without a clear and demonstrable difference in user needs. Therefore, the proposed standard is inconsistent with our view of the objectives of the Framework.



The proposed standard would change the current financial reporting model for goodwill by requiring the amortization of goodwill and changing (1) the timing or frequency of the goodwill impairment test, (2) the level at which goodwill should be assessed for impairment, (3) the recognition, measurement, and allocation of a goodwill impairment loss, and (4) the derecognition of goodwill. These changes would create substantial differences in the reported financial position and results of operations between private and public companies. We are not convinced that accounting for goodwill is one of those rare instances where a substantial difference in recognition and measurement between private companies and public companies is justified. Further, the basis for conclusions does not adequately support how the needs of private company financial statement users differ from the needs of public company users in the recognition and measurement of goodwill.

When the Board embarked on the project to simplify how both public and private entities test goodwill for impairment by allowing an entity to use a qualitative approach in certain circumstances, the scope was originally intended to include only private companies. However, the Board observed, as described in the basis for conclusions in ASU 2011-08, *Testing Goodwill for Impairment*, that (1) “there was no significant difference in user needs or how users of nonpublic entity financial statements and users of public entity financial statements evaluate an entity’s goodwill balance or goodwill impairment loss” and (2) “preparers of both nonpublic entity and public entity financial statements share similar concerns about reducing the cost and complexity of applying some accounting standards.” The results of the Board’s outreach at that time would suggest that changes to the existing recognition and impairment guidance should be considered more broadly for all entities rather than only for private companies.

Our experience is that the current goodwill impairment model, while workable, can be challenging and costly to preparers and auditors of both public and private companies, with little perceived incremental benefit to users to justify those costs. Some aspects of the proposal may simplify the current goodwill impairment model without sacrificing significant perceived benefits to users—for example, the elimination of the second step of the goodwill impairment test. Other aspects of the proposal are difficult to comment on without further research, such as the potential benefits of an amortization and impairment model compared to an impairment-only model and the arbitrary 10-year maximum useful life for goodwill, particularly in instances where the primary asset of an acquisition has a life longer than 10 years.

Therefore, we would be supportive of the Board undertaking a more comprehensive reconsideration of the existing model for testing goodwill for impairment. We believe it is a healthy endeavor for the Board to revisit its existing standards periodically to ensure such standards continue to provide financial statement users with relevant information at a reasonable cost. A comprehensive reconsideration of the goodwill impairment model would



allow the Board to invest the necessary time and effort to thoroughly research various alternatives, perform sufficient outreach to both private company and public entity constituents, consider the interaction of the goodwill impairment model with the impairment models for long-lived and indefinite-lived assets, and develop guidance that is sufficiently robust to address challenging implementation issues.

We also question whether a shortened comment period will be sufficient for constituents to fully assess the implications of the significant changes being proposed, including whether the proposed standard should be available to all entities. However, we recognize that the PCC and, in turn, the Board may decide to move forward with the proposed standard for private companies only. If that is the case, we have provided specific comments with respect to the implementation of the proposal in Appendix A. Our comments, however, are mainly limited to identifying matters that require attention due to the lack of clear conceptual basis for the proposal, extensive board deliberations, and time to perform research. Further, given our recommendation that the Board should undertake a comprehensive project on goodwill impairment, and our belief that any proposed standard on this topic should be considered for public entities, we have not responded to each of the specific questions in the proposal.

Finally, given the fundamental difference that the proposed standard would create in the financial reporting for goodwill between private and public companies, it will be impracticable, in many cases, for a private company that applies the proposed standard to retrospectively adjust its financial statements as a public company. As such, transition guidance or an accommodation should be provided. Otherwise those private companies would effectively be precluded from complying with U.S. GAAP as public companies.

In conclusion, we believe that the economics of transactions and arrangements should be reflected in the financial statements regardless of how the enterprise has chosen to access capital. We are not convinced that there are clear differentiators between the needs of users of public company and private company financial statements with respect to the accounting for goodwill. Therefore, we encourage the FASB to explore changes to the recognition and measurement of goodwill for both public and private companies. We advocate the simplification of accounting standards for all preparers where the revised standards reasonably reflect the economics of a transaction.



If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152, Lawrence Dodyk at (973) 236-7213, or Kirsten Schofield at (973) 236-4054.

Sincerely,

PricewaterhouseCoopers LLP



Appendix A

Primary asset considerations

Under the proposed standard, goodwill is amortized over its useful life, which is based on the remaining useful life of the primary asset acquired in a business combination, not to exceed ten years. An entity must also evaluate the remaining useful life of goodwill upon the occurrence of events and changes in circumstances that warrant a revision to the remaining period of amortization. We recommend that the Board clarify if the primary asset can be an unrecognized intangible asset (i.e., because of the potential application of PCC-13-01A, *Accounting for Identifiable Intangible Assets in a Business Combination*), and, if so, whether a preparer would be required to determine the useful life of the asset even though the asset has not been assigned a value. Also, when the primary asset in a business combination is an indefinite-lived asset, we recommend that the Board clarify whether an entity would be required to identify “a principal identifiable long-lived tangible or intangible asset” or default to using a ten-year useful life.

In addition, the Board should clarify what events and changes in circumstances would warrant a revision to the remaining period of amortization. For example, if the primary asset of the business combination was sold, impaired, or otherwise disposed of before the end of its originally estimated useful life, the Board should clarify whether an entity would also be required to shorten the useful life of the goodwill arising from the acquisition.

Impairment considerations

Under the proposed standard, when a goodwill impairment loss is recognized, that “loss shall be allocated to individual amortizable units of goodwill on a reasonable and rational basis.” There may be implementation challenges with applying this guidance, as existing goodwill at the adoption date will be tracked at the reporting unit level, whereas new goodwill after adoption will be tracked on an acquisition-by-acquisition basis. Additionally, the Board should clarify whether an impairment loss should be allocated in a proportional manner across acquisitions or tracked by acquisition, and if so, how the impairment would be allocated if the acquisition has been integrated with other operations of the entity. Accordingly, we recommend that the Board provide additional guidance to address how an entity should allocate an impairment loss.

Disposal considerations

The proposed standard requires that “when an entity is to be disposed of in its entirety, goodwill of that entity shall be included in the carrying amount of the entity in determining the gain or loss on disposal.” Further, “when a portion of an entity that constitutes a business is to be disposed of, goodwill associated with that business shall be included in the carrying amount of



the business in determining the gain or loss on disposal” and is determined “based on the relative fair value of the business to be disposed of and the fair value of the portions of the entity that will be retained for which goodwill previously has been recognized.” When referring to “an entity,” we recommend that the Board clarify the level at which this guidance is intended to apply.

For example, if an acquired business that is an entity, but not the entire entity originally acquired, is subsequently sold, it is unclear how goodwill associated with the disposed entity should be allocated in the disposal transaction—based on the original acquisition or based on relative fair value. If based on relative fair value, the allocation might be based on the relative fair value of the disposed business to the fair value of the overall reporting entity, or to the fair value of the originally acquired business. In addition, we recommend the Board clarify how this guidance would apply to goodwill that exists as of the effective date when there are future disposal transactions.

Transition requirements

The proposed standard states that the “pending content that links to this paragraph shall be effective prospectively for goodwill generated in business combinations” after the adoption date, which appears to exclude from the scope of the new guidance goodwill existing as of the effective date. This appears inconsistent with the transition provisions described elsewhere in the proposed standard and should be clarified by the Board.

The proposed standard states that “goodwill existing as of the effective date shall be amortized prospectively over its remaining useful life (as determined based on the useful life of the primary asset of the reporting unit to which goodwill is allocated), not to exceed 10 years, or shall be amortized over 10 years if the remaining useful life cannot be reliably estimated.” The notion that a reporting unit has one primary asset may be challenging to implement, as many companies have reporting units that consist of multiple asset groups. Further, once the primary asset of a reporting unit is identified, we believe circumstances would be rare when the remaining useful life of the primary asset cannot be reliably estimated. Because all long-lived assets presumably have an assigned useful life, it would appear unlikely that a company applying the proposed standard would be able to assert that a remaining useful life cannot be reliably estimated. Lastly, it is unclear whether a company would be required to write-off all existing goodwill of a reporting unit on the effective date if the primary asset of a reporting unit was fully depreciated on that date. We recommend that the Board clarify whether a company would be required to identify a secondary asset with a remaining useful life in these circumstances.



Impact on other accounting standards

We recommend that the Board clarify what impact the adoption of the proposed standard would have on other accounting standards. For example, under current GAAP, a company with an investment accounted for under the equity method is required to identify basis differences between the cost of the investment and the amount of underlying equity in the net assets of the investee. ASC 350-20-35-58 notes that “the portion of the difference...that is recognized as goodwill...shall not be amortized.” It is unclear whether the Board intends to preclude a company that applies the proposed standard from amortizing goodwill associated with its equity method investment basis differences. If the Board concludes that companies that apply the proposed standard should amortize goodwill resulting from basis differences, we recommend that the Board provide separate transition guidance to describe how a company would apply the proposed standard with respect to its existing equity method investments.