



ILLINOIS CPA SOCIETY

August 23, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. PCC-13-01B

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on *FASB Proposed Accounting Standards Update—Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a proposal of the Private Company Council)*. The proposed amendments would provide guidance about an accounting alternative for the subsequent measurement of goodwill for an entity that recognizes goodwill in a business combination in accordance with Topic 805, Business Combinations, except for a publicly traded company or a not-for-profit entity. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated.

1. *Please describe the entity or individual responding to this request.*

The organization and operating procedures of the Committee are outlined in Appendix A to this letter. However, the majority of individuals on our Committee work for large, medium and small public accounting firms. Those individuals are mostly engaged in the area of auditing. Other individuals on our Committee are investors, accountants in industry, or in academia.

2. *Should any types of entities in the proposed scope be excluded? Should any types of transactions or accounts be excluded, or are there any other types of transactions or accounts that should be included in the scope?*

No comment.

3. *Should the Board consider expanding the scope of the accounting alternative to other entities, such as publicly traded companies or not-for-profit entities? If the scope is expanded to other entities, what changes, if any, should the Board consider to the accounting alternative for the subsequent measurement of goodwill? If the scope is expanded to public companies or not-for-profit entities, should the accounting alternative continue to be elective?*

The Board should consider expanding the scope to small not-for-profit (NFP) entities; however, a threshold would need to be established to identify large versus small NFPs. Many NFPs merge with or acquire other NFPs and face similar challenges with applying the current guidance as private for-profit companies. Prior to 2010, combinations of NFP organizations were exempted from the guidance in ASC Topic 805 and instead followed APB Opinion 16 which allowed either purchase or pooling accounting. An Accounting Standards Update, effective in 2010, recognizes the unique features of NFPs, and provides specific guidance for NFP mergers and acquisitions in ASC Topic 958, which differs from the guidance for for-profit businesses; however, if the NFP operates like a business, goodwill is recorded. It seems reasonable to conclude that it would be appropriate to include some NFPs in the scope of the proposed accounting alternative.

4. *Would the proposed amendments reduce overall costs and complexity compared with existing guidance? If not, please explain why.*

It seems possible that the proposed amendments would reduce overall costs and complexity, but it depends on whether a separate valuation study would need to be conducted. If an entity still would need to have a valuation study conducted for other reasons, the cost savings would be marginal; however, if a valuation study would no longer need to be conducted for other reasons, the proposed amendments could reduce overall costs and complexity compared with existing guidance.

5. *Do you agree that the accounting alternative for goodwill would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide relevant information to users?*

Yes, we agree that the accounting alternative for goodwill would provide relevant and decision-useful information to users of private company financial statements.

6. *Do you agree with the PCC's decision to amortize goodwill on a straight-line basis over the life of the primary asset acquired in a business combination, not to exceed 10 years? If not, please tell us what alternative approach or useful life you would prefer?*

We agree with the PCC's decision to amortize goodwill on a straight-line basis over the life of the primary asset acquired in a business combination, not to exceed some number of years. However, we question the 10 year maximum and wonder if it makes more sense to use the 15 year tax life as a maximum since many users of private company statements also utilize income tax returns to make decisions. Using the 15 year tax life as a maximum would reduce tax-book differences which could be beneficial to some users of private company financial statements.

7. *Do you agree that goodwill accounted for under this alternative should be tested for impairment at the entity-wide level? If not, should an entity be either required or given an option to test goodwill at the reporting unit level? What issues, if any, arise from amortizing goodwill at the individual acquired goodwill level while testing for goodwill impairment at the entity-wide level?*

Yes, we agree that goodwill accounted for under this alternative should be tested for impairment at the entity-wide level.

8. *Do you agree that goodwill accounted for under this alternative should be tested for impairment only upon the occurrence of a triggering event that would indicate that the fair value of the entity may be below its carrying amount? If not, when should goodwill be tested for impairment? Should there be an annual requirement to test goodwill?*

Yes, we agree that goodwill accounted for under this alternative should be tested for impairment only upon the occurrence of a triggering event that would indicate that the fair value of the entity may be below its carrying amount.

9. *In the proposed amendments, an entity would consider the same examples of events and circumstances for the assessment of triggering events as those considered for the qualitative assessment. However, the PCC intends the nature and extent of those two assessments to be different. The assessment of triggering events would be similar to the current practice of how an entity evaluates goodwill impairment between annual tests. In contrast, the optional qualitative assessment would be part of an entity's goodwill impairment test, requiring a positive assertion, consistent with current practice, about its conclusion reached and the events and circumstances taken into consideration. Should the assessment of triggering events be performed consistently with how entities currently assess for goodwill impairment between annual tests? If not, how should an*

entity assess for triggering events? Do you agree that there should be a difference in how an entity would perform its assessment of triggering events and how it would perform the qualitative assessment?

We generally agree that the assessment of triggering events should be performed consistently with how entities currently assess for goodwill impairment between annual tests and that there should be a difference in how an entity would perform its assessment of triggering events and how it would perform the qualitative assessment.

10. *Do you agree with the alternative one-step method of calculating goodwill impairment loss as the excess of the carrying amount of the entity over its fair value? Why or why not?*

Yes, we agree with the alternative one-step method of calculating goodwill impairment loss as the excess of the carrying amount of the entity over its fair value. This is consistent with the goal of reducing complexity and costs for users of private company financial statements who disregard goodwill and goodwill impairment losses in their analysis of a private company's financial condition and operating performance.

11. *Do you agree with the disclosure requirements of the proposed Update, which largely are consistent with the current disclosure requirements in Topic 350? Do you agree that an entity within the scope of the proposed amendments should provide a rollforward schedule of the aggregate goodwill amount between periods? If not, what disclosures should be required or not required, and please explain why.*

Yes, we agree with the disclosure requirements of the proposed Update and that an entity within the scope of the proposed amendments should provide a rollforward schedule of the aggregate goodwill amount between periods.

12. *Do you agree that the proposed Update should be applied on a prospective basis for all existing goodwill and for all new goodwill generated in business combinations after the effective date? Should retrospective application be permitted?*

Yes, we agree that the proposed Update should be applied on a prospective basis for all existing goodwill and for all new goodwill generated in business combinations after the effective date and that retrospective application be permitted. However, the issue of how to amortize existing goodwill (discussed in Question 13) needs to be better addressed. For example, what would the maximum life be for existing goodwill?

13. *Do you agree that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over its remaining useful life not to exceed 10 years (as determined on the basis of the useful life of the primary asset of the reporting unit to which goodwill is assigned) or 10 years if the remaining useful life cannot be reliably estimated? Why or why not?*

Yes, we agree that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over its remaining useful life not to exceed some maximum number of years. However, there will be challenges in how to identify the "remaining useful life" and efforts to come up with good estimates of "remaining useful life" would make the process more complicated which is contrary to the objective.

14. *When should the alternative accounting method be effective? Should early application be permitted?*

The alternative accounting method should be effective one year after it is passed so that users have a chance to decide. Early application should be permitted.

15. *For preparers and auditors, how much effort would be needed to implement and audit the proposed amendments?*

Minimal effort should be needed to implement and audit the proposed amendments.

16. *For users, would the proposed amendments result in less relevant information in your analyses of private companies?*

Users would be impacted minimally assuming users have access to management; however, if that access goes away, some users may want information that is not available to them.

17. *If an entity elects the accounting alternative in the amendments in this proposed Update, do you think that entity also should be required to apply the PCC's proposed accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination (in Topic 805)? Alternatively, if an entity elects the accounting alternative in Topic 805, should that entity also be required to adopt the proposed accounting alternative? (No decisions have been reached by the Board and the PCC about this question.)*

Yes, if an entity elects the accounting alternative in the amendments in this proposed Update, that entity also should be required to apply the PCC's proposed accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination (in Topic 805); alternatively, if an entity elects the accounting alternative in Topic 805, that entity also be required to adopt the proposed accounting alternative. The two proposed alternatives work together with a common goal of reducing complexity and costs related the accounting for acquisitions and the underlying justification of non-relevance is the same for both proposals.

18. *The scope of this proposed Update uses the term publicly traded company from an existing definition in the Master Glossary. In a separate project about the definition of a nonpublic entity, the Board is deliberating which types of business entities would be considered public and would not be included within the scope of the Private Company Decision-Making Framework. The Board and PCC expect that the final definition of a public business entity resulting from that project would be added to the Master Glossary and would amend the scope of this proposed Update. The Board has tentatively decided that a public business entity would be defined as a business entity meeting any one of the following criteria:*

- a. It is required to file or furnish financial statements with the Securities and Exchange Commission.*
- b. It is required to file or furnish financial statements with a regulatory agency in preparation for the sale of securities or for purposes of issuing securities.*
- c. It has issued (or is a conduit bond obligor) for unrestricted securities that can be traded on an exchange or an over-the-counter market.*
- d. Its securities are unrestricted, and it is required to provide U.S. GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement.*

Do you agree with the Board's tentative decisions reached about the definition of a public business entity? If not, please explain why.

We do not have a comment at this time; however, we anticipate that we will comment on the separate project related to the definition of a public entity.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Amanda M. Rzepka, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
 ORGANIZATION AND OPERATING PROCEDURES
 2013-2014

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
Todd Briggs, CPA	McGladrey LLP
Brian Chmiel, CPA	Crowe Horwath LLP
Frank Dery, CPA	PricewaterhouseCoopers LLP
John Hepp, CPA	Grant Thornton LLP
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
Scott Lehman, CPA (Chair)	Crowe Horwath LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Robert Sledge, CPA	KPMG LLP

Medium: (more than 40 professionals)

Timothy Bellazzini, CPA	Sikich LLP
Christopher Cameron, CPA	Kutchins Robbins & Diamond Ltd
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Gary Mills, CPA	Frost, Ruttenberg & Rothblatt PC
Tad Render, CPA	Miller Cooper & Company Ltd
Steven Roiland, CPA	Kessler Orlean Silver & Co., PC
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs

Industry:

Rose Cammarata, CPA	CME Group Inc.
Farah Hollenbeck, CPA	Abbott Laboratories
Joshua Lance, CPA	N Pritzker Capital Management LLC
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Anthony Peters, CPA	McDonald's Corporation
Amanda Rzepka, CPA (Vice Chair)	Jet Support Services, Inc.
Richard Taraphchak, CPA	Navistar International Corporation

Educators:

Martin Coe, CPA	Western Illinois University
James Fuehrmeyer, Jr., CPA	University of Notre Dame

Staff Representative:

Gayle Floresca, CPA	Illinois CPA Society
---------------------	----------------------