



August 23, 2013

Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687
T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Re: File Reference No. PCC-13-01B

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Intangibles—Goodwill and Other, Accounting for Goodwill*, a proposal of the Private Company Council. We support the efforts of the Financial Accounting Standards Board and the Private Company Council to address accounting matters of particular importance to private entities and their stakeholders.

We agree with the decision to consider guidance for an accounting alternative for the subsequent measurement of goodwill. However, we have comments regarding certain aspects of the proposal, including testing impairment at the entity-wide level. For example, an entity-wide approach could have unanticipated consequences when, for example, goodwill exists for a business or component and the entity later abandons or recognizes an impairment of the primary asset. The proposed guidance addresses disposal of all or a portion of an entity, but does not address other circumstances in which a similar approach might be appropriate. We provide further comments in our response to Question 7 below.

Please note that a public company with an equity method investment (ASC 323) in a private entity that adopts the proposed alternative for goodwill accounting will be affected by the investee's application of the guidance. In its simplest form, the income or loss for a particular period will be affected by goodwill amortization and therefore the amount recognized by the public company would be different than if the private entity were still applying current guidance for its goodwill. We recommend consideration of whether further guidance should be provided for this circumstance, whether the investor is a public or private company whose own accounting would not incorporate the proposed accounting alternative.

A concern is the potentially broad view some might hold that simplification of accounting should be an end in itself and worth achieving without due regard to



potential unexpected adverse consequences arising in the future. Therefore, our comments in this letter are supportive of the direction the Board is taking with regard to reducing the costs and complexities of accounting for private entities, although they are tempered somewhat where we foresee potential adverse consequences.

Question 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?

We generally agree with the proposed scope, and believe the scope ultimately should be conformed to the definition that results from the outcome of the separate project about the definition of a nonpublic entity.

Question 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 proposed scope is restricted to goodwill that results from a business combination under ASC 805. We believe the scope should be expanded to include goodwill recognized by a private company that arises from investments under the equity method (ASC 323).

We believe the scope of this guidance should be expanded to include not-for-profit (NFP) entities as would be consistent with how ASU 2010-07 brought acquisitions by NFPs squarely into the acquisition method guidance of ASC 805. In other words, now that NFPs apply the acquisition method, we believe they should have the option to apply the current proposal. By conforming the current proposal to the outcome of the nonpublic entity definition project and including NFPs in the scope, we believe the operability of the current proposal will be enhanced and lead to more consistency.

We do not believe the guidance should be expanded to include public companies. In particular, there would be significant difficulties conceptually reconciling an entity-wide approach to goodwill impairment testing in light of requirements to separately report segment information. However, please refer to our comments in the opening of this letter regarding investors (especially public companies) applying the equity method to investments in entities that have adopted the proposed alternative.

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

We believe overall costs and complexity for those entities electing the proposed guidance would be reduced.



Question 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?

We agree.

Question 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.

Question 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?

We generally agree with testing at the entity-wide level and recommend the Board consider circumstances in which an entity should instead test at a lower level. The proposal calls for establishing the life of goodwill based on the life of the primary asset in a business combination. We agree with linking the life of goodwill to the primary asset, and we believe that linkage in concept should apply to impairment considerations in certain circumstances. For example, as currently proposed, when the primary asset is derecognized or impaired, the entity might not impair the related goodwill because of an entity-wide approach. We believe such an event related to the primary asset should result in assessing whether the related goodwill is impaired, or result in a presumption that since the primary asset is impaired, therefore the related goodwill would be impaired.

Question 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?

We agree with the proposed test for impairment only upon the occurrence of a triggering event and do not believe there should be an annual requirement.

Question 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 agree that the assessment of triggering events be performed consistently with current assessments between annual test dates and we agree there should be a difference.

Question 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?

We agree, in part because the alternative one-step method would reduce accounting complexity and costs.

Question 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.

We agree with the proposed disclosure requirements and the inclusion of a rollforward schedule of aggregate goodwill.

Question 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?

We agree with application on a prospective basis for existing and new goodwill generated. We believe, however, that transition guidance related to existing goodwill should be enhanced to address whether an impairment test should be performed as of the date of adoption. We have mixed views on how that transition guidance would be written. On the one hand, the entity presumably would have considered existing guidance in ASC 350 regarding when to test between annual test dates, therefore impairment upon adoption would not occur. On the other hand, requiring the entity to test for impairment as of the date of adoption would provide a consistent basis for accounting going forward. We recommend that the guidance specify whether and what type of impairment considerations the entity should apply upon adoption. One thought would be for the entity to consider whether any triggering events have occurred as of the adoption date and, if any exists, proceed according to the proposed model.



We do not believe retrospective application should be allowed, in part because an entity might have recognized an impairment under ASC 350 as currently written that could be reversed upon adoption. That is, if an entity were to re-determine historic goodwill accounting on the new basis, prior impairment amounts could be reinstated and in essence replaced with a combination of amortization and impairment testing under the new model. We believe that the attempt to retrospectively apply the thought processes and judgments to a prior date would be unwieldy at best.

Question 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?

We disagree with amortizing existing goodwill over ten years when its useful life cannot be reliably estimated. We believe an entity's assertion that a useful life cannot be reliably estimated would be inconsistent with paragraph 350-20-35-63 of the proposed model that states: "Useful life shall be based on the remaining useful life of the primary asset acquired in a business combination." The proposed model does not call for separately establishing a useful life of goodwill. Defaulting to ten years at transition in essence would diverge from how an entity would establish the life for newly arising goodwill. We therefore believe that life established at transition should conform to the related primary asset's life. Further, if end of the primary asset's life has been reached upon adoption, the related goodwill should be adjusted to zero at that date.

In addition, when the useful life of goodwill can be estimated at the date of adoption, we would have concerns supporting the amortization of existing goodwill over that period, unless the cumulative effect of prior amortization is recorded at transition. For example, we believe goodwill with a ten year life that arose nine years earlier should be adjusted at transition to ten percent of its original amount, and the remaining balance should be amortized in the next year, year ten. As we understand paragraph 350-10-65-2b in the proposed model, the entire balance of goodwill at the date of adoption would be amortized in one year if its useful life is determined as, say, 10 years and adoption is as of the beginning of year ten. We do not believe that amortizing 100 percent of the goodwill in 'year 10' would be a proper reflection of that year's income.

Question 14: When should the alternative accounting method be effective? Should early application be permitted?

We believe early application should be permitted.

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



We believe the effort for auditors would not be significant. We speculate that for many preparers, the effort would be significant, but worth the investment to shift to the new model and realize reduced efforts and costs in the future.

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

Not applicable.

Question 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.)

We believe that an entity adopting the proposed intangible assets guidance should also adopt the goodwill proposal because what is subsumed into goodwill under the intangibles proposal could be significantly different than current accounting standards. However, an entity adopting the proposed goodwill guidance need not adopt the intangible assets proposal.

Question 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 believe this question should be addressed in response to the proposed Accounting Standards Update, *Definition of a Public Business Entity: An Amendment to the Master Glossary*.



We would be pleased to discuss our comments with you. If you have any questions, please contact Douglas J. Reynolds, Partner, Accounting Principles Group, at 617.848.4877 or doug.reynolds@us.gt.com; or L. Charles Evans, Partner, Accounting Principles Group, at 832.476.3614 or charles.evans@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP