



August 23, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Via e-mail – director@fasb.org

Re: File Reference No. PCC-13-01B. Proposed Accounting Standards Update: Intangibles – Goodwill and Other (Topic 350): *Accounting for Goodwill – a Proposal of the Private Company Council*

Plante & Moran PLLC (Plante Moran) is the 11th largest public accounting firm in the United States and serves a wide range of non-public entities in multiple industries. We appreciate the efforts of the Private Company Council (PCC) and the Financial Accounting Standards Board (Board) to address the unique needs and financial reporting characteristics of private entities. Following, please find our responses to the specific Questions for Respondents in the above referenced Exposure Draft, along with additional following comments.

Question 1: Please describe the entity or individual responding to this request. For example:

- a. Please indicate whether you primarily are a preparer, user, public accountant, or other (if other, please specify).
- b. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
- c. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
- d. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.

Response 1: Plante Moran is a public accounting firm with approximately 270 partners and over 2,000 staff. While we serve both public and private entities, a significant portion of our practice is devoted to private entities in numerous industries.

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?

Response 2: There are no types of entities or transactions or accounts that we believe should be excluded from the Proposed Update. In addition, there are no other types of transactions or accounts that should be included in the scope of the Proposed Update.

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?

Response 3: We believe that the scope of the accounting alternative should be extended to not-for-profit entities without modification. While certain not-for-profit entities have some form of public accountability (resulting from the solicitation of contributions from the public, use of public funds in the form of grants, or other activities) not-for-profit entities in general are more similar to private entities than public entities. In particular, our experience has been that the users of not-for-profit entity financial statements have similar needs as users of private company financial statements and would benefit from the accounting alternative. We acknowledge that the Board currently has projects on its active agenda to address several aspects of financial reporting for not-for-profit entities that could affect the subsequent measurement of goodwill. However, until those projects are completed, we believe that not-for-profit entities should be able to elect the accounting alternative.

With respect to public companies, we do not believe it would be appropriate at this time to extend the accounting alternative to these entities. While users of public company financial statements may have the same concerns as users of private company financial statements, the Board and the International Accounting Standards Board have invested significant time and resources toward convergence of US GAAP and the International Financial Reporting Standards (IFRS) and the accounting alternative for the subsequent measurement of goodwill would create potentially significant differences with IFRS. We would suggest that an appropriate time to consider the accounting alternative for public companies would be after the completion of the Joint FASB/IASB Projects.

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

Response 4: Yes, we believe the proposed amendments would reduce overall costs and complexity compared with existing guidance. However, we believe there may be complexities associated with determining the primary asset. Please refer to our Response to Question 6.

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?

Response 5: Yes, we believe the information provided to users of private company financial statements would be relevant and decision-useful. While goodwill is an indefinite-lived asset under current US GAAP, it is not as relevant to the users of private company financial statement users as a tangible asset or a contractual-legal intangible asset. Its lesser relevance should arguably require fewer entity resources to account for it on an ongoing basis. However, to write it off entirely at inception without economic justification would create a misleading

result in the entity's financial statements. Therefore, the amortization and impairment approach in the Proposed Update provides a reasonable approach to the write-off of goodwill over the period of time the asset most likely provides benefits to the entity.

We have concerns, however, regarding the justification for the accounting alternative as documented in the Background Information and Basis for Conclusions to the Proposed Update. In particular, paragraphs BC8 and BC9 explain how users of financial statements often disregard goodwill and goodwill impairment losses in their analysis of a private entity's financial statements. With respect to goodwill impairment losses, these losses may be excluded from users' quantitative analyses; however, we would not expect that impairment losses are not relevant to users, as they are normally indicative of operational matters of concern. And there are some users of private company financial statements, such as vendors and customers, who not prepare extensive quantitative analyses and for whom the historical financial statements may be the primary source of information. Paragraph BC17 does discuss this in more detail; however we would recommend that the PCC consider a more complete discussion of the importance of goodwill impairment losses in paragraph BC9, so that the Background Information is more complete. Furthermore, in paragraph BC 17, the analysis of the immediate write-off approach uses concerns over the potential for entities to report negative equity and the possibility of negative reactions by users of financial statements to the immediate charge as justification for not selecting that approach. In our opinion, while these may be legitimate concerns of financial statement users, they do not provide sufficient justification for the accounting approach selected. We recommend the PCC strengthen the arguments in paragraph BC17 to ensure it supports the conclusion that the accounting alternative represents an acceptable approach to the subsequent measurement of goodwill. We believe that the argument we included in the preceding paragraph is sufficient justification for the conclusion to not write-off goodwill at inception, so we support the accounting alternative.

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?

Response 6: We agree with the PCC's decision to amortize goodwill on a straight-line basis over a period not to exceed 10 years. We also agree that the goodwill amortization period should be specific to the business acquired. However, we have identified three potential issues the PCC and Board may wish to further evaluate in finalizing the standard.

First, there may be situations where the primary asset has a very short useful life. For example, the primary asset of an acquired technology company may be software that has a useful life of three years or less. Similarly, the primary asset of an acquired manufacturing entity may be tooling or customer contracts that have a useful life of one to two years. In these situations, although the primary asset could be very short-lived, it is possible the goodwill could provide value to the entity over a longer period of time. This would result in a mismatch between the amortization period of the goodwill and the period over which it provides benefit to the entity.

Second, the term primary asset is defined in paragraph 350-20-35-63 of the Proposed Update as "the principal identifiable long-lived tangible or intangible asset that is the most significant asset from which the acquired business derives its cash-flow generating capacity." The term

“identifiable” is not defined in the Proposed Update and there could be implementation questions about whether the primary asset must be separately recognized in the entity’s financial statements. For example, a service organization may consider the primary asset acquired in a business combination to be the assembled workforce; however, an assembled workforce is not recognized apart from goodwill. Similarly, for entities that adopt the PCC’s proposed accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets, the primary asset acquired in a business combination may not be recognized unless it meets the contractual or legal criteria of that proposed standard. If the primary asset concept in the Proposed Update is intended to be consistent with that used in ASC 360-10-35-31 for long-lived asset impairment, we recommend the final guidance clarify that the primary asset should be separately recognized and amortized or depreciated. On the other hand, if the PCC and Board do not intend to require the primary asset to be separately recognized, this should be also be clarified in the final guidance.

Finally, the primary asset concept appears to be consistent with how that term is used in the impairment approach outlined in ASC 360-10-35. In our experience, entities often find it difficult to identify the primary asset for impairment testing purposes and we believe similar challenges could arise under the accounting alternative in the Proposed Update. We recommend the PCC and the Board consider providing implementation guidance in the form of examples to better enable entities to identify the primary asset acquired in a business combination.

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?

Response 7: We agree that goodwill accounted for under this alternative should be tested for impairment at the entity-wide level. We acknowledge that impairment testing at the entity-wide level could allow for impairment losses to go unrecognized had goodwill been tested for impairment at the reporting unit level; however, because goodwill is amortized under this alternative over a period not to exceed 10 years, we believe the benefits of the simplified impairment approach outweigh the potential for impairment losses to go unrecognized.

In addition, we suggest that the PCC and the Board provide additional guidance for circumstances where a subsidiary of a private entity prepares separate financial statements. We would interpret the guidance in the Proposed Update to require the subsidiary to evaluate goodwill for impairment in its separate financial statements (since it is an “entity”) and that the private entity (the parent) would also be required to evaluate goodwill for impairment in its consolidated financial statements. A circumstance could arise where a goodwill impairment loss is recognized at the subsidiary level but not at the parent level. Consideration should be given to including guidance similar to what is in ASC 350-20-35-47 through 35-49 under current US GAAP.

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?

Response 8: Yes, we agree that goodwill accounted for under this alternative should be tested for impairment only upon the occurrence of a triggering event, primarily because goodwill will be amortized over a period not to exceed 10 years. Annual impairment testing would not be warranted as the risks associated with not recognizing impairment losses would be lower due to the periodic amortization charges. This approach is also consistent with the impairment testing for other finite-lived intangible assets under current US GAAP.

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?

Response 9: We agree in concept that the assessment of triggering events should be performed consistently with how entities currently assess goodwill for impairment between annual tests. However, we believe the process could be made simpler and easier to understand if the guidance in ASC 350-20-35-30 were used for the goodwill impairment test in the accounting alternative. The guidance in ASC 350-20-35-30 is currently used for interim goodwill impairment assessments and in situations where the carrying amount of a reporting unit is zero or negative. Under this approach, an entity is required to evaluate whether events and circumstances indicate that it is more likely than not that a goodwill impairment exists. If this approach were used, the optional qualitative assessment in the Proposed Update would be unnecessary. We do not believe that this approach will result in an undue burden on private entities because the more-likely-than-not analysis in ASC 350-20-35-30 does not require a positive assertion as is required under the qualitative assessment in current US GAAP. In addition, the extent of the analysis and documentation required by a private entity to determine whether the quantitative entity-wide goodwill impairment test is necessary would not differ considerably from the triggering events assessment in the Proposed Update. Finally, this approach has the benefit of using guidance already contained in US GAAP.

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?

Response 10: Yes, we agree with the alternative one-step method, acknowledging that using the carrying value of the entity rather than the implied fair value of goodwill to measure the impairment loss could reduce the likelihood of an impairment loss being recognized and the significance of any goodwill impairment losses that are recognized. However, consistent with our Response to Question 7, we believe the benefits of the simplified impairment approach outweigh the potential for impairment losses to go unrecognized (or be recognized at lesser

amounts) because goodwill is amortized under this alternative over a period not to exceed 10 years.

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.

Response 11: Yes, we agree with the disclosure requirements in the Proposed Update. However, given the potentially significant differences in accounting between the accounting alternative in the Proposed Update and other US GAAP, appropriate accounting policy disclosures will be of utmost importance in ensuring that financial statement users understand the accounting alternative elections a private entity has made in preparing its financial statements. We believe that the current requirements in ASC 235-10-50 provide adequate guidance regarding the need to disclose accounting policies. Nevertheless, given the significance of the accounting policy disclosures, we recommend that a cross-reference to the accounting policy disclosure requirements in ASC 235-10-50 be considered in the disclosure requirements in the Proposed Update. A sample accounting policy disclosure for an entity that has elected to use the accounting alternative should also be considered in the implementation guidance in the Proposed Update.

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?

Response 12: Yes, we agree that the Proposed Update be applied on a prospective basis for all existing goodwill and for all new goodwill generated after the effective date. We believe that retrospective application is not practical (and may not be feasible in some situations) as it could be difficult for entities to make judgments about points in time in the past. Additionally, if it was likely that an entity would recognize an impairment loss after application of the accounting alternative, retrospective application could allow the entity to minimize or eliminate the impairment loss due to amortization charges that would have been recognized in previous periods.

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?

Response 13: Yes, we agree in concept that existing goodwill should be amortized on a prospective basis over the remaining useful life not to exceed 10 years, based on the useful life of the primary asset acquired in the business combination. This approach avoids a potential large adjustment to goodwill in the year of application, especially when no impairment losses would have been recognized under the alternative approach. However, the PCC and the Board should consider providing additional guidance for situations where the remaining life of the primary asset is zero (that is, the primary asset has been fully amortized

or depreciated). In those situations it is not clear whether the goodwill should be written-off on the date of adoption, or whether 10 years (or some other useful life) should be selected.

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

Response 14: We would recommend allowing the alternative method to be used when the finalized guidance is released.

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

Response 15: We do not believe that there would be significant effort associated with implementing and auditing the proposed amendments, with the exception of potential issues associated with determining the primary asset, as discussed in our Response to Question 6.

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

Response 16: N/A

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.)

Response 17: We do not believe that an entity that elects the accounting alternative for goodwill in this Proposed Update should be required to adopt the accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination. If an entity elects to follow the accounting alternative for goodwill but not the accounting alternative for identifiable intangible assets, the likely result is simply an accelerated write-off of goodwill with no resulting impact on other intangible assets.

On the other hand, we believe that if an entity elects the accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination, the entity should also be required to apply the proposed accounting alternative for the subsequent measurement of goodwill in this Proposed Update. Because many of the identifiable intangible assets not recognized separately from goodwill would be amortized had the accounting alternative not been elected, we believe it would be inappropriate for those amounts to be included in goodwill subject only to an impairment test.

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.

Response 18: We do not agree with the Board's tentative decisions reached about the definition of a public business entity. For conduit bond obligors, we believe that the conclusion should be based on (1) whether the securities are unrestricted and can be traded on an exchange or over-the-counter market; **and** (2) whether the business entity is required to or elects to make its financial statements publicly available.

In the proposed definition of a public business entity, criteria (a), (b) and (d) are predicated on whether the entity is required to make its financial statements publicly available. Assuming an entity is under the aggregate debt limits of SEC Rule 15c2-12 and has not agreed in the initial offering document to make its financial statements publicly available, the entity is not required to make its financial statements available to investors in the conduit bonds. The treatment of all conduit debt obligors with unrestricted securities that can be traded on an exchange or an over-the-counter market as public business entities is inconsistent with the premise that making financial information publicly available is the defining characteristic of a public business entity. Accordingly, we do not believe conduit debt obligors should be considered public business entities unless the entity's financial statements are made publicly available.

Other Comments: We also offer the following additional comments for consideration by the PCC and the Board:

- Paragraph 350-20-35-72 of the Proposed Update – Consider clarifying that deferred income taxes should be included in the carrying amount of the entity only if recognized by the entity in its financial statements. The paragraph as written could be interpreted to require consideration of the amount of deferred taxes that would be reported had the entity been a taxable entity.
- Paragraph 350-20-40-11 of the Proposed Update – When a portion of an entity for which goodwill has previously been recognized is disposed of, it is unclear to us how the

goodwill derecognized should be allocated to the amortizable units of goodwill. The approach to derecognizing goodwill in paragraph 350-20-40-11 appears to be consistent with the accounting for goodwill assigned to reporting units in current US GAAP, but may create application issues when there are multiple amortizable units of goodwill.

- Lastly, we would expect that only entities with little or no expectation of becoming a public business entity will adopt the accounting alternative. We would also expect that occasionally a business entity that has adopted the alternative will move into the public arena. The proposed guidance is silent with respect to this circumstance. We therefore believe that the effect of this situation would result in a need to reflect an accounting change in the financial statements in the year of the change under ASC 250-10. We do, however, recommend that guidance be added regarding this situation.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the PCC, the Board or its staff may have about these comments. Please direct any questions to Joan Waggoner (joan.waggoner@plantemoran.com or 312.980.2945), or David Grubb (david.grubb@plantemoran.com or 248.223.3745).

Very truly yours,

PLANTE & MORAN, PLLC