



The Association of
Accountants and
Financial Professionals
in Business

August 23, 2013

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

File Reference No. PCC-13-01B

Dear Ms. Cosper:

The Small Business Financial and Regulatory Affairs Committee (SBFRC) of the Institute of Management Accountants (IMA) appreciates the opportunity to provide its view on the FASB's and the PCC's proposed standards update, Intangibles—Goodwill and Other (Topic 350).

The IMA is a global association representing more than 65,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The SBFRC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBFRC engages and suggests solutions to standard-setters and regulatory agencies such as the Financial Accounting Standards Board, Securities and Exchange Commission, International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Services and others. Information on the committee can be found at http://www.imanet.org/about_ima/advocacy_activity/small_business_financial_and_regulatory_affairs_co.aspx.

The SBFRC worked a parallel process in collecting our feedback and preparation of this comment letter with another group within IMA, the Financial Reporting Committee (FRC). While we represent different constituencies within the overall membership, we have much common ground in our points of view on accounting standards. We both believe that as a whole GAAP is too complex and that there are places where standards could be simplified and still be relevant to users; both recording/measurement and disclosures. We both acknowledge that in most cases private companies don't have to use GAAP. They can use an OCBOA if they wish while public companies cannot. We both see and acknowledge that alternative methods of recording and measurement add systemic complexity. We have much of the same values about what represents high quality standards.

In that light the SBFRC would suggest that any proposal by the PCC 1) attempt to provide a bright line separating those covered by the scope, 2) require an accounting treatment change for those in scope (as opposed to elective alternatives), where practical, and 3) require a FASB review of post implementation feedback or other outreach to determine if the guidance for public companies should be changed.

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We want to show support for the proposals and the work of the PCC, FASB and the FAF to improve private company accounting and recommend improvements so that the process gains momentum while improving the pronouncements along the way. We feel that some compromise will aid us directionally to stay headed toward standard simplification, high quality accounting and improving disclosures.

Our point of view

- Private small to medium sized entities are not a special segment but are in fact the majority of the accounting and financial reporting base (preparers, public accountants and users.)
- Accounting standards have sometimes been too complex and too theoretical to be of benefit to the owners and managers of those entities.
- Accounting standards have been driven by the capital markets to reduce investor risk and to reduce the volatility in those capital markets. Both of those goals can and have produced accounting guidance that is not always helpful to private companies' owners and management.
- We see the ultimate prize, at the end of the rainbow, to be a standalone set of guidance (US GAAP), which will be used by choice as the predominant method of accounting and reporting for private SMEs with additional disclosure for public companies, focused accounting treatment for specialized industry practice and for significant complex transactions.
- An accounting alternative proposed for private companies only is a principle change in the primary (most broadly used) accounting treatment thereby creating a leave behind alternative required for public companies and other justifiable segments.
- Or, if the proposed accounting is not meant to be the primary generally accepted accounting, but an exception from complexity for the size of entity, by providing computational relief, then it conversely adds systemic complexity by adding alternative methods and potential comparability issues.

We generally support the proposals by the PCC, its efforts and the overall plan to improve private company accounting.

We believe that the proposed treatment for Goodwill is a reduction in complexity as a reduction in the number of offline calculations to record fundamental accounting transactions.

It is our sense that Goodwill is frequently not understood by management and frequently ignored by users such as lenders and insurance companies.

We believe that this proposal addresses a transaction where the economic realities are the same for all entities. As such the underlying accounting and reporting are equally useful or just as irrelevant to the users of all entities; private and public alike.



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We would challenge the FASB to review the residual accounting for public companies, solicit feedback from market participants and consider adjusting the guidance to remove alternative treatments for transactions with the same economic facts unless there is a clear justification such as specialized industry practice or a transactional complexity.

Our responses to the questions included in the proposed guidance can be found in the attached appendix. We appreciate the consideration of these comments. We are available to discuss our views at your convenience.

Respectfully,

A handwritten signature in blue ink, appearing to read "John K. Exline". The signature is stylized and fluid, with a long horizontal line extending to the right.

John K. Exline, CMA, CPA
Chair, Small Business Finance and Regulatory Committee
Institute of Management Accountants
(316) 299-9104



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Appendix

Question 1

Please describe the individual or organization responding to this Invitation to Comment.

The SBFRC represents a constituency within our membership. The SBFRC's current members include preparers in manufacturing and service industries, mostly private but some public filers, members in public accounting, academia and the analyst community.

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?

No entities mentioned in the scope should be excluded.

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?

Our sense is that the scope of this proposal may be applicable to public companies and as such the FASB should verify through broad based outreach. The economics are the same for public and private companies.

Question 4

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

Complexity is a two fisted opponent. On one hand complexity is caused by offline calculations or computational analysis required after the fact to drive the underlying recording and measurement of a transaction. On the other hand, elective alternative treatments increase the systemic complexity.



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So, the proposal reduces the computational complexity but left as is, adds to the systemic complexity.

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 have not done significant user outreach, but our sense is that regardless of how the premium paid by an investor/buyer for a target company is accounted for, users and analysts are going to exclude the accounting impact of the transaction. This does not matter whether the intangible asset is amortized over a period of time or subsequently expensed out as depreciation (as both EBITDA and cash flows exclude amortization and depreciation.)

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?

Basically we agree that the amortization of goodwill is a simpler and straightforward approach as opposed to the current methodology.

As noted in BC14, *"the PCC also observed that the amortization-based accounting model for goodwill is consistent with the IFRS for SMEs."*

We respectfully acknowledge that income tax accounting methods do not and should not drive GAAP accounting standards development; however see an opportunity to remove at least one difference between the methods with a slight change.

We recommend that the PCC either: 1) extend the cap to encompass existing tax policy (15 years), or 2) permit alternative amortization life based on relevant tax authority.

As noted in BC16, *"the PCC acknowledged that the useful life of goodwill and the pattern in which it diminishes are difficult to predict, yet amortization depends on such predictions."* In BC16 they note that the ten year useful life is subjective and based on assumptions.

The lack of relevance of a 10 year span is discussed in BC9 – *"Many users of private company financial statements indicated that they disregard noncash goodwill impairment charges from their quantitative analysis of a private company's operating performance*



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because they focus on tangible net assets, cash flows, and/or some form of adjusted EBITDA. Moreover, because the underlying events and conditions leading to goodwill impairment manifest themselves long before the impairment is reported in a private company's financial statements, ...

BC16 has a good discussion of different approaches to determine asset life; and we agree with the use of a "Primary Asset" as a preferred method. The discussion in BC16 also implies that the selection of a ten year life is largely subjective. In cases where life of the primary asset exceeds the subjective ten year life (patents, copyrights, engineering documentation or other intellectual property) we believe that a longer amortization life would be appropriate. The life of the primary asset is more meaningful than a cap. The life of the asset has at least some basis for establishing the life where as the cap is admittedly arbitrary. Conversely, the argument that most of the assets and liabilities will have lives less than 10 years is meaningless because if the life of goodwill were tied to the primary asset then the only time the cap would be triggered was when the presumption was wrong.

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?

It would appear reasonable that an entity be given the option to test goodwill solely at the entity level (as opposed to reporting level). As noted in BC10, "...Under step one of the goodwill impairment test, an entity is required to calculate the fair value of its reporting units, which generally requires involvement by external valuation professionals."

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?

Yes, impairment should be tested only upon the occurrence of a triggering event.



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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?

Yes, we agree with the proposed methodology. We believe that the similar approach of the two assessments does not create an unreasonable burden and additionally provides the intended assurances without significant increase in the cost of compliance.

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?

Generally we prefer the one-step method and agreed with the comments in BC19-BC21.

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 roll forward schedule of the aggregate goodwill amount between periods? If not, what disclosures should be required or not required, and please explain why.

No, we do not believe that a roll forward schedule provides additional data that is useful. It adds to the quantity with a dilutive effect on the quality. For simple situations, when using straight-line amortization, preparers should not be required to provide roll forward schedules.



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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?

Yes, the transition as noted in BC24 appears to be reasonable. We agree with a prospective application solely for expediency. A retrospective adoption as an alternative as suggested in PCC-13-03 would be agreeable for those willing to undertake the effort. Retrospective adoption should be allowed but not required.

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 respectfully acknowledge that income tax accounting methods do not and should not drive GAAP accounting standards development; we see an opportunity to remove at least one difference between the methods with a slight change.

We recommend that the PCC either: 1) extend the cap to encompass existing tax policy (15 years), or 2) permit alternative amortization life based on relevant tax authority.

As noted in BC16, *“the PCC acknowledged that the useful life of goodwill and the pattern in which it diminishes are difficult to predict, yet amortization depends on such predictions.”* In BC16 they note that the ten year useful life is subjective and based on assumptions.

The lack of relevance of a 10 year span is discussed in BC9 – *“Many users of private company financial statements indicated that they disregard noncash goodwill impairment charges from their quantitative analysis of a private company’s operating performance because they focus on tangible net assets, cash flows, and/or some form of adjusted EBITDA. Moreover, because the underlying events and conditions leading to goodwill impairment manifest themselves long before the impairment is reported in a private company’s financial statements, ...”*

BC16 has a good discussion of different approaches to determine asset life; and we agree with the use of a “Primary Asset” as a preferred method. The discussion in BC16 also implies that the selection of a ten year life is largely subjective. In cases where life of the primary asset exceeds the subjective ten year life (patents, copyrights, engineering documentation or other intellectual property) we believe that a longer amortization life would be appropriate.



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The life of the primary asset is more meaningful than a cap. The life of the asset has at least some basis for establishing the life where as the cap is admittedly arbitrary. Conversely, the argument that most of the assets and liabilities will have lives less than 10 years is meaningless because if the life of goodwill were tied to the primary asset then the only time the cap would be triggered was when the presumption was wrong.

Question 14

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

Generally we encourage at least one annual reporting cycle for private companies to learn and implement changes in guidance but we favor early adoption when there is an improvement in the decision usefulness or relief in the preparation costs.

Question 15

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

Many of our committee members work inside private enterprises, not-for-profit organizations, and academic institutions. Those members who routinely work as preparers seem to feel that one to two full time equivalent days would be a reasonable estimate for the typical private SME.

Question 16

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

We are predominately not users and have not done significant outreach.

Dealing with complications of business combinations is an extremely difficult operational process. It is especially difficult for resource constrained private SME companies. We sense that the added complexity of the accounting treatment adds little relevant (and no timely) information for the users of private company financial reporting. It is largely a costly distraction. Any reduction in complexity is a welcome change.

We agree with the comment noted in BC9 – *“Many users of private company financial statements indicated that they disregard noncash goodwill impairment charges from their quantitative analysis of a private company's operating performance because they focus on*



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tangible net assets, cash flows, and/or some form of adjusted EBITDA. Moreover, because the underlying events and conditions leading to goodwill impairment manifest themselves long before the impairment is reported in a private company's financial statements, ...”

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 see the two proposals as mutually exclusive, as proposed, and therefore the elections should be independent. However, we would not be opposed to combining the proposals or the elections or treatment. Each of those would reduce complexity.

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.*



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

Yes we are in general agreement, but will comment on the FASB's separate proposal at a later date.