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August 27, 2013

Susan M. Cospers, CPA
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PO Box 5116
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Re: July 1, 2013 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill* [File Reference No. PCC-13-01B]

Dear Ms. Cospers:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC is comprised of 13 practitioners from CPA firms of varying sizes ranging from less than 10 professionals to more than 1,000 professionals. All member firms focus on audits of nonpublic entities; some firms also audit public companies or public employee benefit plans.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC is in substantial agreement with the major provisions of the ED, except that a majority of TIC members believes the maximum useful life of goodwill should be 15 years, rather than 10 years. TIC also recommends that the goodwill accounting alternative be expanded to include not-for-profit organizations. These and other comments are provided in the specific comments section below.

SPECIFIC COMMENTS

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?*

TIC noted that the ED already excludes public companies and not-for-profit organizations (NFPs) from the scope of the proposal. TIC understands that the Private Company Council (PCC) established the stated exclusions to be consistent with the scope of the proposed Private Company Decision-Making Framework. (See TIC's response to Question 3 below for TIC's views on these exclusions.) TIC did not identify any other types of entities that should be excluded from the scope of the ED.

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?*

TIC has decided not to comment on expanding the scope of the accounting alternative to publicly traded companies. However, if the Board decides to do so, it should be structured as a separate project and should not delay the issuance of this ED for private companies.

TIC supports expanding the scope of the accounting alternative to NFPs. Users of NFP financial statements disregard goodwill and goodwill impairment losses just as much as users of other private entities' financial statements. It is also very costly to value goodwill for impairment each year. Many small NFPs do not have the resources/talent to do so internally and therefore need to seek outside assistance. By their nature, NFPs may have even greater cost burdens than for-profit entities in obtaining valuation specialists to calculate the fair value of their reporting units. Therefore, NFPs have essentially the same relevance and cost/benefit issues as other private entities and have a special need for inexpensive and simple accounting alternatives, wherever possible.

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

Yes, they would reduce overall costs and complexity in the subsequent accounting for goodwill.

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?*

Goodwill represents a one-time cost incurred at the time of the business combination, and it does not provide any additional insights to the future ongoing operation of the business. Having the goodwill amortized along with the primary assets acquired in the business seems appropriate with the underlying economics of the business combination.

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?*

TIC agrees 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. However, the majority of TIC members believe the maximum useful life should be 15 years, rather than 10 years. They believe that it's impossible to determine whether 10 years or 15 years would be the more appropriate number; both are arbitrary. TIC also noted that the maximum useful life would only apply in those acquisitions where the asset driving goodwill could not be identified. Therefore, it makes the most sense to default to a maximum useful life that is easiest to apply. Defaulting to 15 years would eliminate deferred income taxes on cash acquisitions (the most prevalent type of acquisition for private companies)—thus, further reducing complexity for private entities and financial statement users. Goodwill amortization is easier to explain to lenders and management if the amortization term for book and tax purposes is the same.

A minority of TIC members, however, did support the proposed 10-year amortization term.

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?*

TIC agrees that entity-wide goodwill analysis is the appropriate approach for private entities. The basis for conclusions acknowledges that private companies may not be familiar with ASC Topic 280 (Segment Reporting) and may incur significant unnecessary costs and efforts to perform allocation at the reporting unit level.

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, testing for impairment on a triggering event basis aligns with the amortization method and the method of accounting for long-lived assets. It provides consistency among the treatments. Annual goodwill impairment testing should not be required.

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?

Using the same examples of events and circumstances for the triggering events as those used for the qualitative assessment provides a comprehensive, yet succinct listing of items for private companies to consider related to the assessment of goodwill. The items referenced are understandable. Allowing private companies to use the same criteria for trigger assessments and then qualitative assessments allows them to focus on understanding how these issues impact their operations and will provide meaningful evaluations.

The difference between the nature and extent of the assessment of triggering events under the proposed amendments and under the qualitative assessment is appropriate. However, TIC believes most private companies will not understand the intended difference in the assessments. The last two sentences of paragraph BC18 do not sufficiently convey the intention of the Board and the PCC.

Therefore, TIC recommends that more robust guidance be added to the standard—not just the Basis for Conclusions. Several paragraphs of implementation guidance should be included in the final standard to explain the difference between the two assessments in simpler terms. When likening the triggering event approach in this ED to the interim assessment under the existing standard, it should be emphasized that in both cases, the triggering events must be very apparent. In contrast, the qualitative assessment is meant to be a more rigorous test that requires a positive assertion and, by its nature, would be more difficult to audit. Examples should also be provided to show the difference between the two approaches.

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?*

Yes, as noted in the basis for conclusion, this method will provide information for users of the financial statements that is relevant and cost effective. It is also more operational and understandable for entities, particularly private companies that may be less sophisticated in their use and understanding of valuation methods, but may be comfortable in their understanding of what an entity's fair value could be.

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.

TIC does not see the need for this disclosure for goodwill since it is not required for any other intangible asset. If the Board and the PCC decide to require it, then TIC believes private companies should have the option of a rollforward schedule or a narrative presentation.

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?*

TIC agrees that the final standard should be applied on a prospective basis for all existing goodwill and for all new goodwill. However, most TIC members also believe that a modified retrospective method should be permitted as an option. If a business combination has occurred within the periods being presented, preparers may want to take advantage of the simplified accounting provided by the standard for the earliest year presented. A modified retrospective option could be a desirable alternative for those entities that would prefer consistency in the accounting for goodwill when comparative financial statements are presented.

TIC discussed an example of a business combination that has an acquisition date of December 31, 2013 (assuming a calendar year-end acquirer). Assume the entity is presenting comparative financial statements for calendar years 2013 and 2014. If the final standard has an effective date of years beginning after 12/15/13 (i.e., calendar-year 2014) and there is no option for some retrospective application, the entity would miss the opportunity to take advantage of the accounting alternative provided in the standard for the earliest year presented (i.e., 2013 in this example).

However, other entities (for various reasons) may not wish to apply retrospective accounting. Those entities should have the option of prospective application.

In TIC's view, such options would not affect the comparability of the financial statements of private entities that adopt the accounting alternative retrospectively v. those that apply it prospectively, since most financial statement users are already disregarding intangible assets and goodwill.

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?*

Overall, TIC agrees that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over the remaining useful life of the primary asset of the

reporting unit to which goodwill is assigned not to exceed 10 years (or preferably 15 years, as discussed in our response to Question 6).

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

The alternative accounting method should be effective as an option as soon as possible after issuance. If not made effective immediately upon issuance, then early adoption should be permitted.

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

Auditors would need to change audit programs/manuals and accounting guidance and train the staff. Educational efforts for clients would be necessary, too, but likely most would easily understand and adopt the new option. Overall, it will not likely require a significant amount of effort.

Question 16 is for users and has been omitted from TIC's response.

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.)*

If the entity elects the accounting alternative in this proposed update for goodwill, there should not be a requirement to also apply the accounting alternative relating to identifiable intangible assets. TIC believes the decision to separately recognize identifiable intangible assets v. to include them within goodwill could be made independently of the goodwill amortization decision without any negative impact on financial statement users.

However, if an entity elects the accounting alternative for intangible assets as described in the proposed ASU for Topic 805, then the entity should also apply the accounting alternative in the proposed ASU on the subsequent measurement of goodwill because the goodwill account balance at the acquisition date would be potentially much higher under this proposal than if the accounting alternative were not selected. The proposed amortization of goodwill in this proposed ASU allows for sufficient reduction of the balance over time without the uncertainty and complexity involved in assessing annual impairment. In addition, TIC believes most entities will want to follow the accounting alternative for goodwill amortization.

In summary, TIC believes an entity that elects the accounting alternative for recognition, measurement and disclosure of identifiable intangible assets acquired should be required to apply the accounting alternative for goodwill, but not vice versa.

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.

TIC has decided not to comment on the definition of a public business entity in its response to this proposal. TIC plans to comment separately on the Proposed ASU, *Definition of a Public Business Entity—An Amendment to the Master Glossary*, which was issued on August 7, 2013.

EDITORIAL COMMENTS

Paragraph 350-20-15-5

TIC suggests adding the word “prospectively” to the last sentence of this paragraph, as follows:

*The accounting alternative, once elected, shall be applied prospectively to existing goodwill and to all new goodwill generated in future business combinations.
[Suggested text is underlined for emphasis.]*

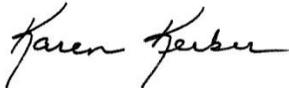
Paragraph 350-20-35-71

This paragraph provides a cross-reference to the evaluation criteria for the goodwill qualitative assessment. TIC agrees this is an appropriate reference point; however some additional text is needed to bridge the language differences between the two sections. The section referenced is in reporting-unit language, whereas this section of the proposed update is written for an entity-level assessment. TIC therefore suggests the following additional sentence at the end of the paragraph:

When applying the guidance in paragraphs 350-20-35-22 through 35-27 for the Accounting Alternative, references to reporting unit should be disregarded and the considerations should be applied at the entity-wide level.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Karen Kerber, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees