Feb. 10, 2016

Technical Director
Financial Accounting Standards Board
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Re: File Reference No. 2015 – 330: Proposed Accounting Standards Update (ASU) — *Business Combinations (Topic 805): Clarifying the Definition of a Business*

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed ASU — *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The PICPA is a professional CPA association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

The committee supports the overall objective of the proposed ASU, but believes that clarification should be made to the example in proposed paragraph 805-10-55-68. Specifically, a statement is made that "Pharma Co. concludes that there is fair value associated with the acquired workforce." The committee believes that this example could lead to confusion, as some users could misinterpret this as permitting the assignment of fair value to an acquired assembled workforce in an acquisition. The potentially confusion wording is underlined below.

> **> > > Case E: Acquisition of Biotech**
> **805-10-55-67** Pharma Co. buys all of the outstanding shares of Target Biotech. Target Biotech's operations include research and development activities on several preclinical compounds that it is developing (in-process research and development projects). The set includes the scientists that have the necessary skills, knowledge, or experience to perform research and development activities. In addition, Target Biotech has long-lived tangible assets such as a corporate headquarters, a research lab, and testing equipment. Target Biotech does not yet have a marketable product and, therefore, has not generated revenues.
>
> **805-10-55-68** Pharma Co. first considers the guidance in paragraph 805-10-55-9A and analyzes whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The identifiable assets in the set include multiple in-process research and development projects and tangible assets (the corporate headquarters, the research lab, and the lab equipment). In addition, <u>Pharma Co. concludes that there is fair value associated with the acquired workforce.</u> Pharma Co. also concludes that substantially all of the fair value of the gross assets acquired is not concentrated in a single identifiable asset or group of similar identifiable assets. <u>Furthermore, because of the significant amount of fair value associated with both the tangible assets and the acquired workforce</u>, Pharma

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Co. does not assess whether the in-process research and development projects are similar (because even if those projects were similar, the threshold would not be met).

805-10-55-69 Because the set does not have outputs, Pharma Co. evaluates the criteria in paragraph 805-10-55-5A to determine whether the set has both an input and a substantive process. <u>Big Pharma*** concludes that the criteria in paragraph 805-10-55-5A are met because the scientists make up an organized workforce that has the necessary skills, knowledge, or experience to perform processes that, when applied to the in-process research and development inputs, is critical to the ability to develop those inputs into a good that can be provided to a customer.</u> The presence of a more than insignificant amount of goodwill is another indicator that 16 the workforce is performing a critical process. Thus, the set includes both inputs and substantive processes and is a business.

*** It is unclear whether the switch to "Big Pharma" from "Pharma Co." was intentional.

> > > Assembled Workforce and Other Items That Are Not Identifiable

805-10-55-6 The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill, any value attributed to it is subsumed into goodwill.

Paragraph 805-10-55-6 in the existing accounting standards codification specifically precludes assigning fair value to an acquired workforce and states, "the assembled workforce is not an identifiable asset to be recognized separately from goodwill, any value attributed to it is subsumed into goodwill."

The committee recommends that consideration be given to rephrasing or emphasizing that an acquired assembled workforce should not be recognized as an intangible asset of an acquired business.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

Lisa A. Ritter

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