



August 29, 2013

Technical Director
Financial Accounting Standards Board
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The Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on the Private Company Council's Proposed Accounting Standards Update (ASU), "Intangibles – Goodwill and Other (Topic 350) – Accounting for Goodwill."

Overall, we support the FASB's efforts to simplify the accounting for private companies as appropriate. As the accounting for goodwill closely aligns with the accounting for identifiable intangible assets in a business combination, we agree that this proposal and the proposed ASU, Business Combinations – Identifiable Assets in a Business Combination (PCC-13-01A) should be deliberated together. We believe that (a) allowing a private company the ability to amortize goodwill on a straight-line basis over the useful life of the primary asset acquired in a business combination, (b) testing for impairment only when a triggering event occurs rather than at each reporting period, and (c) applying the impairment test at the entity-wide level rather than at the reporting unit level will greatly simplify the accounting for goodwill for private companies. However, we believe that this proposed guidance should apply to not-for-profit entities in addition to private companies.

While this proposal will meet its stated objective, we believe there are areas that can be further enhanced. For example, we believe the proposed ASU needs to be expanded and clarified to help an entity identify what the Board considers a primary asset. Likewise, the proposed ASU should include impairment indicators for evaluating changes in events or circumstances when assessing impairment for the assets or asset group similar to those found in ASC 360-10-35-21 relative to *Impairment or Disposal of Long-lived Assets*. Further discussion would also be helpful to show how this proposal will affect that guidance.

We note public companies that apply the equity method under ASC 323, *Investments: Equity Method and Joint Ventures*, to private entities electing this alternative will be impacted in their recognition of equity in earnings or losses from such investees. We believe the Board should consider whether guidance should be provided for public companies that might be impacted by this, and other private company alternatives, in their application of the equity method to investees that make alternative elections as private companies.

We are providing our specific comments to the questions raised in the proposal. Representatives of FinREC would be pleased to discuss our comments with you at your convenience.

Sincerely,

Richard Paul
Chairman, FinREC

Mark Scoles
Taskforce Chairman

Final Draft

Questions for Respondents

Question 2:

Should any types of entities be excluded from the scope of this proposed Update? 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:

Because the proposal might impact the calculation of capital for regulatory purposes, the Board and PCC may want to consider whether regulated financial institutions should be excluded from the scope.

We believe that investments accounted for by the equity method under ASC 323, *Investments: Equity Method and Joint Ventures*, in which the difference between the investors cost and the underlying net assets of the investee are accounted for as if the investee were a consolidated subsidiary should also be included in the scope of this alternative.

Question 3:

Should the Board expand 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 for the recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination? If the scope is expanded to public companies or not-for-profit entities, should the accounting alternative continue to be elective?

Response:

We find merit in also extending this alternative treatment to not-for-profit entities.

Question 4:

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

Response:

We believe that the proposed amendments will reduce cost and complexity for private companies.

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:

Rather than the FASB setting the arbitrary expected life of the primary asset to not exceed ten years for amortizing goodwill on a straight line basis, we believe that establishing a principle would be more appropriate. Therefore, we propose that the reporting entity be allowed to adopt a reasonable and rational methodology for choosing the upper limit of the primary asset's life expectancy for amortization purposes. An entity should be required to disclose its rationale for the amortization period of the goodwill.

To assist private companies with deriving the estimate, the FASB could provide examples of what it considers reasonable and rational. For example, FASB could provide an example using the proposed 10 years as a rational cut off. Alternatively, a private company may choose to amortize the goodwill over 15 years consistent with the tax code so that the entity could further simplify its accounting by applying one standardized approach. An entity should be required to perform a reassessment of the amortization period when a triggering event occurs.

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:

While we generally agree that goodwill accounted for under this alternative should be tested for impairment at the entity-wide level rather than at the individual reporting units, the FASB and PCC should consider whether under certain circumstances a reporting entity would need to test goodwill for impairment at the reporting entity level. For example, events and circumstances may indicate that goodwill related to a specific reporting unit would more likely than not be impaired despite the fact that fair value of the reporting entity would indicate that there is no impairment at the reporting entity. FASB should consider making it optional whether the reporting entity performs the test at the entity level or the reporting unit level upon adoption and disclose its policy election going forward.

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:

We agree with the proposed ASU that goodwill should only be reassessed upon the occurrence of a triggering event that would indicate that the fair value of the entity may be below its carrying amount.

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 would 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:

Because goodwill would be amortized under this alternative method, we believe that the guidance should provide impairment indicators for evaluating changes in events or circumstances when assessing impairment for the assets or asset group similar to those found in ASC 360-10-35-21 relative to *Impairment or Disposal of Long-lived Assets*.

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:

Yes, we agree that the alternative one-step method for calculating goodwill impairment loss meets the objectives of the proposal. We believe this is an important change that appropriately addresses the cost/benefits for this population.

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.

Response:

We are supportive of the proposed disclosure. However, we believe that an entity should have the option to provide a parenthetical accumulated amortization amount on the face of the balance sheet or a roll forward schedule of the aggregate goodwill amounts between periods.

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:

We would not object to applying the proposed Update on a prospective basis for all existing goodwill and for all new goodwill recognized in business combinations after the effective date. However, we encourage FASB to also consider a limited retrospective approach that would require the entity to apply the proposed guidance for all goodwill generated in business combinations in the previous reporting periods presented in the financial statements upon adoption for comparative purposes.

We also suggest that the FASB provide more transition guidance in the final standard. For example, would an entity be required to do an impairment assessment of the recorded goodwill upon adoption of the final standard? If so, if an entity concludes that previously recorded impairment has recovered, does the entity get an opportunity to write the goodwill back up and reset the amortization period at adoption? We believe that such transition guidance would be helpful.

Question 13:

Do you agree that goodwill existing as of the effective date should be amortized on a straight-lined 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:

Yes, we believe this is appropriate if the Board decides to adopt ten years as the maximum period. See our response to Question 6.

Question 15:

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

Response:

We believe that there would be minimal effort needed for auditors to audit the proposed amendments. Preparers may need more time depending on the size and complexity of the private company.

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 intangibles assets acquired in a business combination (in Topic 8-5)? 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:

We believe that different alternatives for private companies should be limited as appropriate and linking the two standards would facilitate limiting the differences. If an entity elects the accounting alternative for subsequent measurement of goodwill, the entity should also be required to apply the PCC's accounting alternative for recognition, measurement and disclosure of identifiable intangible assets acquired in a business combination of the goodwill.

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:

We will be providing our more detailed comments in response to your recent proposed ASU. Some of the issues we plan to address in that letter include:

- The FASB should elaborate on whether entities that file or furnish financial statements voluntarily or subject to the requirements of a debt agreement be explicitly included?
- Voluntary filers as well as broker-dealers that are not issuers should also be allowed to elect this accounting alternative
- More guidance is needed on how to deal with potential implementation issues such as when a nonpublic subsidiary of a public company applies the guidance.