

August 23, 2013

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

File Reference No. PCC-13-01A

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, Accounting for Identifiable Intangible Assets in a Business Combination (Topic 805).

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 issues addressed and solutions proposed for Identifiable Intangible Assets are largely unimportant to smaller private companies. Only a small number of private entities will ever acquire another company.

We believe that the majority of private companies that do experience a business combination will accept the proposal as an improvement in the accounting treatment.

We believe that the external users of financial statements such as lenders and insurance providers will be ambivalent about this change since intangibles and the resulting accounting are largely



ignored in the analysis and metrics used such as cash flows, coverage ratios, tangible net worth and EBITDA.

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 common industry practice (for a particular industry) or a transactional complexity due to the size of the company.

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,

John K. Exline, CMA, CPA

Chair, Small Business Finance and Regulatory Committee

Institute of Management Accountants

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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, a few members in public accounting, academia and from 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, the bright line used to separate the types of included intangible assets seems appropriate.

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 this issue is one where the users of public, private and not-for-profit financial statements are similarly affected. The economics are the same for all entities. The FASB should verify through broad based outreach.

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.



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

Ouestion 5

Do you agree that the accounting alternative for the recognition and measurement of intangible assets acquired in a business combination would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide more relevant information to users?

We have not done significant user outreach, but our sense is that the proposal eliminates or reduces some of the confusing or misunderstood intangible assets and thereby increases the relevance of the information which should lead to an improved base for decision making.

Question 6

Do you agree that for contractual intangible assets, recognition and measurement should be limited to the non-cancelable term of the contract? If so, do you agree with the proposed definition of a non-cancelable contractual term? Do you agree that market participant expectations about the potential renewal or cancellation of the contract should not be factored into the measurement? Do you foresee any increase in cost and complexity or other difficulties in applying this alternative recognition and measurement principle? If yes, would additional implementation guidance address those difficulties?

We do agree that the decision to limit the alternative recognition and measurement by the bright lines provides certainty. It will reduce the cost of preparing financial statements and the related disclosures.

Question 7

Do you agree that intangible assets arising from other legal rights should continue to be measured at fair value considering all market participant expectations, consistent with Topic 820? If not, what accounting alternative for measurement do you recommend?

We agree but suggest that FASB review for a potential change in public company guidance.



Question 8

Do you agree that an entity should disclose the nature of identifiable intangible assets that are not recognized separately as a result of applying the amendments in this proposed Update? If not, please explain why.

We agree, at least as an interim step until public company accounting is revisited.

Question 9

For identifiable intangible assets that are recognized separately as a result of applying the amendments in this proposed Update, do you agree that the amendments should not require any other additional recurring disclosures and that entities should be required to comply with disclosure requirements in relevant Topics, as applicable (for example, Topic 350, Intangibles—Goodwill and Other, and Topic 805)? If not, what additional disclosures should be required and please explain why.

We agree that there are no additional disclosures needed.

Question 10

Do you agree that the proposed Update should be applied on a prospective basis? Should retrospective application be permitted?

We do not believe that there is significant harm to the comparability of multiyear reporting as the overall balance of the intangible assets for prior periods will not change, only the separately identified amounts potentially. It would not be useful, as an example to reassess impairment in a prior year.

Question 11

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

It is always advisable to give private companies in excess of an annual cycle so that they have ample time to learn of the change and contemplate the impacts and the consequences of the alternative. No harm should be present from early adoption.



Question 12

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

One year from the first calendar year end should be sufficient.

Question 13

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

We are predominantly not users and we have not done significant outreach.

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 14

If an entity elects the accounting alternative in this proposed Update, should that entity also be required to apply the PCC's proposed accounting alternative for the subsequent measurement of goodwill (in Topic 350)? Alternatively, if an entity elects the accounting alternative in Topic 350 for goodwill, should that entity also be required to adopt the accounting alternative in this proposed Update? (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 15

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.

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