RSSM

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Certified Public Accountants & Profitability Consultants

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Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Rosen Seymour Shapss Martin & Company LLP ("RSSM") 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."

RSSM supports the FASB's efforts to simplify the accounting for private companies when feasible. 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.

Questions for Respondents

Question 1:

Please describe the entity or individual responding to this request:

Response:

Rosen Seymour Shapss Martin & Company LLP ("RSSM") is a New York City based accounting firm focused on serving the needs of middle market companies, which are predominately privately held.

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?

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Response:

RSSM would encourage the FASB and the PCC to further deliberate where this exemption should be extended to financial institutions who must comply with various regulatory agencies. Since this approach would impact their capital accounts.

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:

RSSM supports extending this alternative to not-for-profit agencies.

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 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 more relevant information to users?

Response:

RSSM believes that the proposed alternative to allow amortization of goodwill will reduce complexity and provide cost savings for preparers. The proposed accounting alternative does have certain aspects which we believe may not provide transparent information to the financial statements users, such the entity wide approach, the ten year term, and the required straight line amortization method.

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:

RSSM is supportive of the decision to limit the amortization period, however, we would encourage the FASB and the PCC to perform further investigation into the maximum period allowed and what the appropriate basis should be based upon including some metrics that best reflects the underlying economics. We believe that the 10 year period is arbitrary and that a shorter period should be considered. Our basis for this is that historical expansion in the U.S. economy average approximately 6 years before contraction. In addition, when utilizing income approach models forecast are generally used for a period of 3 through 7 years before a terminal value is used. RSSM believes that the basis for amortization should be based on some economic measure and would not be supportive of tying the amortization into tax basis, given that tax basis is political policy driven and not reflective of true economics.

RSSM would also encourage the FASB and PCC to allow accelerated methods of depreciation for goodwill. We believe that this matches the economics of most combinations where there is a concerted effort by management in the early years to integrate the acquired entity and to provide an economic return to the entity, as well as accomplishing the desired goals for undertaking the business combination. We believe that the business combination often has a diminishing return after fully integrating the acquired business.

RSSM does not support the linkage to the primary asset, we believe this is a concept which is subjective and that there is not a direct correlation between goodwill and the life of the primary asset.

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:

RSSM does not support mandating that the alternative treatment be tested at an entity wide level. Many private companies have diversified operations which management and those charged with governance evaluate each unit's economic performance. We believe that where management and those charged with governance evaluate each unit separately then the test should be based on such. We support retaining the "management view" as outlined in ASC 280, however, we would encourage the FASB and PCC to revisit this topic to allow certain practical expedients for private companies.

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 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 perm its assessment of triggering events and how it would perform the qualitative assessment?

Response:

RSSM believes that the impairment evaluation will be directly impacted by the amortization period allowed under the final ASU. Our experience, as a firm, is that private companies have embraced the qualitative assessment in ASC 350-20-35 and have been able to apply this qualitative assessment in a cost effective manner, given the "more likely than not" measurement criterion.

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:

RSSM agrees with one-step method of calculating goodwill impairment loss. We believe this will provide significant cost saving to private companies, who often are able to determine the step one value of the reporting unit but do not have the in-house capabilities to determine the appropriate step two values.

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:

RSSM agrees with the proposed disclosures.

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:

RSSM believes that the proposed ASU should be adopted on a prospective basis.

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 like 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:

We do not support that existing goodwill be amortized on a straight line basis prospective but on a period not to exceed ten years. As noted in our response to question 6, RSSM has concerns regarding the 10 year period, as well as concerns regarding the complexity that many private companies will have with the primary asset concept. We believe that the primary asset concept is flawed since in a business combination the primary asset underlying valuation is based on a group basis of valuation and not the specific component.

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 16:

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

Response:

Not Applicable

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:

RSSM believes 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 the 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:

RSSM will further evaluate the proposed ASU on this topic and will provide comments on that proposal.

Thank you again for the opportunity for RSSM to comment on the Private Company Council's Proposed Accounting Standards Update, "Intangibles – Goodwill and Other (Topic 350) – Accounting for Goodwill." Should you have any questions, please feel free to contact me at (212) 303-1058 or via e-mail at kpeterka@rssmcpa.com.

Sincerely,

Keith C. Peterka

Keith C. Peterka, CPA
Principal