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The Accounting Principles & Auditing Standards Committee of the California Society of CPAs is pleased to respond to the July 1, 2013 Proposed Accounting Standards Update Business Combinations (Topic 805) Accounting for Identifiable Intangible Assets in a Business Combination on behalf of the Society.

Question 1: Please describe the entity or individual responding to this request. For example:
  a. Please indicate whether you primarily are a preparer, user, public accountant or, if other, please specify.
  b. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
  c. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
  d. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.

The Accounting Principles and Auditing Standards Committee ("Committee") of the California Society of Certified Public Accountants ("CalCPA") is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee includes 53 members, of whom 47 percent are from local or regional firms, 27 percent are from large multi-office firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international firms.

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?

In view of the recent publication of the Proposed Accounting Standards Update Definition of a Public Business Entity, the Committee will defer response to this question until it comments on that proposal.

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?

The Board should consider expanding the accounting alternative to small not-for-profit entities, although we acknowledge that what is a "small" NFP may be difficult to define. It should not consider expanding the alternative to other entities, such as publicly traded entities unless done as part of a re-examination of accounting for business combinations.
Question 4: Would the proposed amendments reduce overall costs and complexity compared with existing guidance? If not, please explain why.

Yes.

However, the proposed amendments may introduce a new complexity in accounting for the disposal of a part of the intangible assets previously acquired in a business combination. Many of the identifiable intangible assets currently recognized separately from goodwill will not be recognized separately under the proposal, and the limitation of the recognition of identifiable assets arising from contractual rights to the noncancellable term of the contract will tend to reduce the amounts recognized for those assets. In both cases, the amounts not recognized as identifiable intangible assets will instead be accounted for as goodwill. If a portion of the business is sold, should the seller attempt to allocate costs to the intangible assets disposed of even though the assets were not recognized (and cost was not allocated to them) on acquisition? Or should the allocation that was done at acquisition be accepted, and goodwill be reduced in accounting for the sale in accordance with Section 350-20-40?

Question 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?

Yes.

Question 6: Do you agree that for contractual intangible assets, recognition and measurement should be limited to the noncancellable term of the contract? If so, do you agree with the proposed definition of a noncancellable 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 agree that the proposal is workable.

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?

Yes.

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.

Yes.

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.

Yes.

Question 10: Do you agree that the proposed Update should be applied on a prospective basis? Should retrospective application be permitted?

We agree with prospective application. We recommend retrospective application be permitted.
Question 11: When should the alternative accounting method be effective? Should early application be permitted?

The proposed ASU should be effective on issuance; there is no reason to delay since it simplifies existing standards. We favor early application, but this becomes moot if it is effective on issuance.

Question 12: For preparers and auditors, how much effort would be needed to implement and audit the proposed amendments?

While the Committee did not attempt to quantify the actual time savings, we believe that the effort to implement and audit the proposed amendments would be significantly less than the efforts under the current standards.

Question 13: For users, would the proposed amendments result in less relevant information in your analyses of private companies?

Not applicable.

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.)

Yes; they are too closely related not to be adopted together. Also, see our comment in our comments on the proposed ASU “Accounting for Goodwill.”

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.

In view of the recent publication of the Proposed Accounting Standards Update Definition of a Public Business Entity, the Committee will defer response to this question until it comments on that proposal.
We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

Michael D. Feinstein

Michael D. Feinstein, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants