August 23, 2013

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

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The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on FASB Proposed Accounting Standards Update—Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a proposal of the Private Company Council). The amendments in the proposed Update are intended to reduce cost and complexity by providing an entity with an accounting alternative to recognize only those identifiable intangible assets arising from noncancelable contractual terms or those arising from other legal rights. It generally would result in entities recognizing fewer intangible assets in a business combination than under current U.S. GAAP because not all identifiable intangible assets would be recognized separately, as currently required under Topic 805. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated.

1. Please describe the entity or individual responding to this request.

The organization and operating procedures of the Committee are outlined in Appendix A to this letter. However, the majority of individuals on our Committee work for large, medium and small public accounting firms. Those individuals are mostly engaged in the area of auditing. Other individuals on our Committee are investors, accountants in industry, or in academia.

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?

The proposed scope appears to be appropriate assuming that the objective is to provide relief to private companies. However, we wonder whether the current standard is meeting the needs of all users. More specifically, are there public companies that would also benefit from an accounting alternative to recognize only those identifiable intangible assets arising from noncancelable contractual terms or those arising from other legal rights? Likewise, are firms currently having trouble accounting for identifiable intangible assets as currently required under Topic 805?

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?
As mentioned in our response to Question 2, there may be public companies that would also benefit from an accounting alternative to recognize only those identifiable intangible assets arising from noncancelable contractual terms or those arising from other legal rights. It also stands to reason that some not-for-profit (NFP) entities should enjoy the same relief as private companies. Many NFP’s merge with or acquire other NFPs and face similar challenges with applying the current guidance as private for-profit companies. Prior to 2010, combinations of NFP organizations were exempted from the guidance in ASC Topic 805 and instead followed APB Opinion 16 which allowed either purchase or pooling accounting. An Accounting Standards Update, effective in 2010, recognizes the unique features of NFPs, and provides specific guidance for NFP mergers and acquisitions in ASC Topic 958, which differs from the guidance for for-profit businesses; however, if an NFP obtains control of another organization, the combination is an acquisition and the valuation requirements of ASC Topic 805 apply and the acquiring NFP reports the acquired NFP’s assets and liabilities at fair value, including previously unreported intangibles. It seems reasonable to conclude that it would be appropriate to include some NFPs in the scope of the proposed accounting alternative.

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

It seems possible that the proposed amendments would reduce overall costs and complexity, but it depends on whether a separate valuation study would need to be conducted. If an entity still would need to have a valuation study conducted for other reasons, the cost savings would be marginal; however, if a valuation study would no longer need to be conducted for other reasons, the proposed amendments could reduce overall costs and complexity compared with existing guidance.

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?

It depends on who the users are and what the intangibles are. An accounting alternative that limits the separate recognition of intangibles to noncancelable contractual terms and to other legal rights could reduce the cost and complexity of preparing financial statements while continuing to provide decision-useful information about intangible assets acquired in a business combination. Many users who find relevance in other intangible assets that would not be recognized under the accounting alternative may be able to look to qualitative disclosures and request information directly from management for more specific information about such intangibles. However, some users may find qualitative disclosures inadequate and would not find inquiry of management to be an equivalent alternative.

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

Yes, we agree that for contractual intangible assets, recognition and measurement should be limited to the noncancelable term of the contract and we also agree with the proposed definition of a noncancelable contractual term. We agree that market participant expectations about the potential renewal or cancellation of the contract should not be factored into the measurement. We do not
foresee any increase in cost and complexity or other difficulties in applying this alternative recognition and measurement principle related to contractual intangible assets.

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, we agree that that intangible assets arising from other legal rights should continue to be measured at fair value.

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, we 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. We feel that such disclosure should be at a high level to avoid disclosing competitive advantage.

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.

In general, we agree that the amendments should not require any other additional recurring disclosures, and entities should be required to comply with disclosure requirements in other relevant Topics, as applicable. However, we could see cases where disclosure would be necessary related to an identifiable intangible asset arising from a noncancelable contract to fully understand the basis of the contract’s remaining noncancelable terms.

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

We agree that the proposed Update should be applied on a prospective basis.

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

We believe the effective date should be at least one year from the issuance date of the final amendments to allow firms and preparers time to prepare. Early application should be permitted.

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

The effort would probably be minimal; however, there would be some effort related to cancelable and noncancelable application.

13. For users, would the proposed amendments result in less relevant information in your analyses of private companies?
Users would be impacted minimally assuming users have access to management; however, if that access goes away, some users may want information that is not available to them.

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, if an entity elects the accounting alternative in this proposed Update, that entity should also be required to apply the PCC’s proposed accounting alternative for the subsequent measurement of goodwill. Likewise, if an entity elects the accounting alternative in Topic 350 for goodwill, it should also be required to adopt the accounting alternative in this proposed Update. The two proposed alternatives work together with a common goal of reducing complexity and costs related to the accounting for acquisitions and the underlying justification of non-relevance is the same for both proposals.

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.

We do not have a comment at this time; however, we anticipate that we will comment on the separate project related to the definition of a public entity.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA  
Chair, Accounting Principles Committee

Amanda M. Rzepka, CPA  
Vice-chair, Accounting Principles Committee
The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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- Todd Briggs, CPA  McGladrey LLP
- Brian Chmiel, CPA  Crowe Horwath LLP
- Frank Dery, CPA  PricewaterhouseCoopers LLP
- John Hepp, CPA  Grant Thornton LLP
- David Jamiołkowski, CPA  Baker Tilly Virchow Krause, LLP
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- Elizabeth Prossnitz, CPA  BDO USA LLP
- Robert Sledge, CPA  KPMG LLP

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