August 23, 2013

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

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Via Email to director@fasb.org

We are pleased to comment on the Financial Accounting Standards Board’s (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.

We appreciate the efforts being made by the FASB and the Private Company Council (PCC) to develop alternatives to U.S. generally accepted accounting principles for certain nonpublic entities. We believe there is high demand for these alternatives among private company financial reporting stakeholders.

We believe the proposed accounting alternative would reduce the overall costs and complexity associated with current accounting requirements for intangible assets, while still yielding sufficient relevant decision-useful information to users of private company financial statements. We recommend expanding the scope of this accounting alternative to not-for-profit entities, which would also benefit from the reduced costs and complexity of this accounting alternative.

Although, we believe the proposed accounting alternative would reduce the overall costs and complexity associated with the current required accounting for business combinations, we do have some suggestions for the Board to consider as further discussed in our responses.

We understand the Board and PCC have decided not to address the assessment of preferability for private companies in the Private Company Decision-Making Framework as noted in the Summary of Board Decisions for the July 16, 2013 FASB meeting. ASC Topic 250, Accounting Changes and Error Corrections, paragraph 250-10-45-12 states “An entity may change an accounting principle only if it justifies the use of an allowable alternative accounting principle on the basis that it is preferable.” It is unclear how the FASB intends for preparers to address preferability as it relates to adopting one of the PCC alternatives either initially or at some later date, given that the PCC proposals were proposed to provide relief to private companies by providing accounting alternatives that are expected to reduce the costs and complexities associated with the accounting for certain accounting matters. ASC 250-10-45-13 states “The issuance of a Codification update that requires the use of a new accounting principle, interprets an existing principle, expresses a preference for and accounting principle, or rejects a specific principle may require an entity to change an accounting principle. The issuance of such an update constitutes sufficient support for making such a change.” We do not believe the issuance, and subsequent adoption of a private company accounting alternative, such as those contained in this proposed Update, would meet one of the aforementioned criteria.

We strongly believe the Board should address this matter when issuing the final ASU on this topic. One option to address this matter could include proposing an amendment to ASC 250 that would provide that
the issuance of private company alternatives, initiated by the PCC and subsequently issued as Codification updates by the FASB, are excluded from the scope of ASC 250 for purposes of preferability.

We will also be commenting separately on the FASB’s “Definition of a Public Business Entity – An Amendment to the Master Glossary” Exposure Draft.

**Question 1:** Please describe the entity of 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 if 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 the 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 and public entities.

Crowe Horwath LLP is one of the largest public accounting and consulting firms in the U.S. serving both private and public companies. We have approximately 2,600 personnel and over 250 partners. We are one of the nine U.S. firms currently inspected annually by the Public Company Accounting Oversight Board, and are an independent member of Crowe Horwath International which includes more than 150 independent accounting and management consulting firms with offices in more than 100 countries around the world. Our audit practice focuses on both private and public companies.

**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?

We believe that the Board should consider expanding the scope of this accounting alternative to not-for-profit entities, which would also benefit from the reduced costs and complexity of this accounting alternative. The changes considered for not-for-profit entities should be conceptually consistent with the approach adopted for private companies. The alternative should also be elective for not-for-profit entities. We believe that existing U.S. GAAP provides appropriate accounting guidance for publicly traded companies. Users of public company financial statements have different needs than some private companies and existing U.S. GAAP represents an appropriate accounting model that is superior to the PCC alternative model, accordingly, we recommend retaining the existing requirements for publicly traded companies.

**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?

The proposed Update is a reasonable approach to simplifying the accounting for business combinations while still providing useful information to private company financial statement users. Users of private company financial statements typically have very differing views as it relates to intangible assets. The spectrum of views includes the current approach that estimating fair value has significant merit and
usefulness to the view that fair value and subsequent measurement do not present decision useful information to nonpublic company financial statement users. The proposed accounting alternative provides an entity with an option to streamline the accounting and potentially reduce costs and effort using a reasonable approach.

The Board may also consider further private company alternatives to simplify the accounting for business combinations while still providing information that would be relevant to the user. One possible alternative that could be considered is to provide a practical expedient to allow an entity to not recognize separately, but rather include as goodwill, any intangible with an estimated useful life the same as or longer than goodwill. For example, if an entity believes the estimated lives of a registered trademark, trade name or trade dress is ten years and the Company is amortizing goodwill over ten years (assuming the entity has elected the proposed alternative under Topic 350), we believe the entity could elect to include the value of the trademark, trade name or trade dress into the value of goodwill without the need to separately calculate or separate the value of these identifiable intangibles. This would further reduce the cost and complexity of acquisition accounting for nonpublic entities. If the contractual intangible has an estimated useful life that is less than 10 years, the intangible asset should be valued and subsequently amortized over the shorter life. If the Board pursued this alternative, we suggest the Board require disclosure of the types of other identifiable intangibles that were not separately valued in the acquisition disclosure. Although this approach would result in less intangible assets being separately valued and presented, we believe the reduced cost and complexity outweighs the value expected from the alternative being proposed.

Question 6: Do you agree that for contractual intangible assets, recognition and measurement should be limited to the noncancelable term of the contractual term? 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?

The accounting alternative as presented applies an “almost fair value” approach of only considering the remaining contractual term when valuing intangible assets that are contract based. We do not believe that including “almost fair value” information in the financial statements is more meaningful to financial statement users than other possible practical expedients.

We understand that the Board is attempting to maintain some information relative to the fair value of intangible assets for private company financial statement users when considering the alternative for valuing contractual intangible assets based on the remaining contractual term. As the Board noted in the background information and basis for conclusions section many users of private company financial statements are not concerned with and often ignore intangible assets. Limiting the fair value recorded for intangible assets to contractual intangibles and the remaining contractual life significantly limits the value of the information presented because it is not a reflection of the true fair value of the intangible assets. For example, an entity may have a significant supplier, customer or license that has a one year term and renews annually unless cancelled by one of the parties. In a transaction where this intangible is given significant value by the parties, the financial statements would result in limited value because of the short contractual life. We believe this “almost fair value” approach will require more effort than the incremental benefits to the users and would limit the reduction in cost and complexity of accounting for acquisitions because the alternative would still require that valuation techniques are applied to a portion of the intangible assets. It may be likely that when fair value is important to users of the financial statements, financial statement preparers will not elect to apply the alternative.
Question 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. As the main purpose for this proposed Update is to simplify the accounting for business combinations, retrospective accounting for an entity that has already applied the accounting rules currently in effect, would create additional effort and cost has already been expended on previous business combinations. We do not believe that comparability is a significant issue with the proposed Update that would warrant requiring retrospective application.

While we do not believe retrospective application adds decision useful information to the financial statements, we do not object to it being permitted.

Question 11: When should the alternative accounting method be effective? Should early adoption be permitted?

We believe that the timing objective can be achieved with an effective date for years ending after December 15, 2014, with early application permitted. The effective date should be aligned with the alternatives presented in the proposed Accounting Standards Update, Intangibles – Goodwill and Other (Topic 350), Accounting for Goodwill – A proposal of the Private Company Council.

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

The level of effort needed to implement and audit the proposed amendments would generally be less than when the alternative is not elected. One area that we believe could require significant effort to implement and audit without a corresponding benefit is the portion of the proposed standard that involves the analysis required to determine which intangibles are contractual versus non-contractual and the determination of the remaining contractual life of specific contracts. We believe that the additional “almost fair value” amounts for intangible assets presented in the financial statements does not justify the effort because limiting the life of the contract to the remaining noncancelable contract term does not reflect the fair value of the intangible asset, or in some cases the economics of the transaction, and therefore significantly limits its usefulness to financial statement users.

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 (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 believe that an entity that elects the accounting alternative in Topic 805 should be required to elect the accounting alternative in Topic 350. In many instances, the accounting alternative in Topic 805 will result in a larger residual (more goodwill that otherwise would have been included in intangibles and in many cases amortized) and therefore aligning that outcome with amortization of goodwill provides preparers with an alternative that reduces the cost and complexity of the accounting while also recognizing that the potential for more value included in goodwill by use of the alternative should be accounted for over time. We also believe that if the alternative in Topic 805 is elected and the alternative for Topic 350 is not elected, there is an inherent inconsistency in the approach to goodwill impairment because Step 2 in Topic 350 requires valuing all assets and liabilities at the testing date and comparing the residual to the book value of goodwill. The intangible assets and methodology used are different between Topic 805 and the proposed Topic 805 alternative which creates the inherent measurement inconsistency.
Alternatively, we believe an entity that does not elect the accounting alternative in Topic 805 should be permitted to elect the accounting alternative for goodwill (Topic 350). We believe this is appropriate because the acquisition accounting and resulting goodwill reflect a representation of the fair value of all intangibles at the acquisition date and the resulting goodwill. Also, an entity should still be allowed to reduce the cost and complexity of the subsequent accounting for goodwill by choosing the alternative in Topic 350.

In addition, an entity that elects the accounting alternative in Topic 350 for goodwill should not be required to adopt the accounting alternative in this proposed update. We believe that an entity will apply acquisition accounting first, either applying existing U.S. GAAP or electing the alternative.

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Should you have any questions, please contact Scott G. Lehman at 630-574-1605 or scott.lehman@crowehorwath.com.

Sincerely,

Crowe Horwath LLP