August 15, 2013

Director@fasb.org
File Reference No. PCC 13-01B

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 Intangibles Goodwill and Other (Topic 350) Accounting for Goodwill on behalf of the Society.

Question 1: Please describe the entity or individual responding to this request. For example: Please indicate whether you primarily are a preparer, user, or public accountant. If other, please specify.
   a. 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).
   b. 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.
   c. 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 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?

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 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?

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

Yes.

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 relevant information to users?

Yes.

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?

Yes. This will significantly simplify accounting for goodwill.

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?

Testing for impairment should be done at the reporting unit level. Doing it only at the entity level would potentially mask impairment related to an impaired reporting unit if entity-wide fair value exceeds carrying amounts. While testing at the reporting unit level may cause some of the reduction in costs and complexity not to be achieved, testing at the reporting unit level is important to the integrity of amounts in the financial statements.

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?

We agree that goodwill should be tested for impairment whenever there is a triggering event, but believe that it should be tested at the reporting unit level.

We do believe that an annual test or other periodic for impairment is generally appropriate because diminution in value of the goodwill can occur gradually without a triggering event. However, under the proposal, goodwill is subject to amortization, which substantially mitigates the effect of any potentially diminution in its value without a triggering event, so we believe the PCC has struck a reasonable balance and we therefore do not believe annual or other periodic testing is necessary.

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 should an entity assess for triggering events? Do you agree that there should be a difference in how an entity would perform its assessment of triggering events and how it would perform the qualitative assessment?
We agree with the proposed method of assessing and measuring impairment, except we believe it should be done at the reporting unit level.

**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?

We agree with the one-step alternative method of calculating goodwill impairment, but believe it should be done at the reporting entity level. See responses to Questions 8 and 9.

**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 rollforward schedule of the aggregate goodwill amount between periods? If not, what disclosures should be required or not required, and please explain why.

We agree with the disclosures as proposed.

**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?

We agree with prospective application. We recommend retrospective application be permitted by recording a cumulative-effect adjustment as of the beginning of the earliest period presented be permitted (See Question 13).

**Question 13:** Do you agree that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over its remaining useful life not to exceed 10 years (as determined on the basis of the useful life 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?

Yes, we essentially agree with the accounting in the proposal, but find it confusing. We believe that all goodwill should be subject to amortization for an entity that adopts the proposed standard. However, how to base the amortization of goodwill at the transition date on the useful life of the primary asset of the reporting unit to which goodwill was assigned is unclear; is this the primary asset at the time of the business combination, or at the date of implementation? If the business combination was some years ago, the remaining useful life of the primary assets at the date of the business combination could be very short or none at all. Does that mean that the goodwill would be amortized over a shortened life, or potentially written off immediately? Or, if amortization is based on the remaining useful life of the primary asset of the reporting unit at the date of implementation, this primary asset could be very different from what it was at the date of the business combination; also, to the extent a portion of its service life has expired, the goodwill amortization expense might be unduly increased.

Moreover, we believe an entity should have the option on implementing the proposal on a retrospective basis by recording a cumulative-effect adjustment as of the beginning of the earliest period presented. We do not believe the reasons not to permit retrospective application in paragraph BC24 will be relevant in all cases, and retrospective implementation would afford an entity an opportunity to charge some or all amortization to prior years, which would tend to mitigate the Board's concern over determining
impairment allocable to prior years. While it might be desirable to implement both the proposals on business combinations and goodwill in the same manner, we would permit retrospective application by recording a cumulative-effect adjustment as of the beginning of the earliest period presented for the goodwill proposal even if the business combination proposal is not implemented retrospectively because there is no requirement to remeasure existing goodwill to amounts that may have been determined if a different business combination standard were applied to prior years (and we do not suggest remeasurement should be required or permitted).

**Question 14:** 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 15:** 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 16:** For users, would the proposed amendments result in less relevant information in your analyses of private companies?

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 intangible assets acquired in a business combination (in Topic 805)? 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.)

Yes; they are too closely related not to be adopted together.

As explained in response to Question 13, we believe implementing this proposal on a retrospective basis by recording a cumulative-effect adjustment as of the beginning of the earliest period presented should be permitted. We do not believe it should be permitted in adopting the PCC’s proposed accounting in Topic 805 *Business Combinations — Accounting for Intangible Assets in a Business Combination.*

**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 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