August 14, 2013

Ms. Susan M. Cosper, CPA  
Technical Director  
File Reference No. PCC-13-01B  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116  

Re: Accounting for Goodwill a proposal of the Private Company Council

Dear Ms. Cosper:

We appreciate the opportunity to offer comments on the above referenced proposed Accounting Standards Update. The efforts of the FASB Private Company Council ("PCC") are of significant importance to the preparers, users and auditors of private company financial statements. We are pleased that the PCC has taken up the issue of accounting for goodwill.

ParenteBeard LLC is a large regional accounting firm headquartered in Philadelphia, Pennsylvania, with operations throughout the Mid-Atlantic Region. We are currently ranked in the top 25 of U.S. accounting firms, with approximately 1,000 team members including approximately 120 partners. Our practice is diverse; we have large concentrations in health care, higher education, manufacturing and distribution and construction. Our practice is primarily privately owned businesses and not for profit organizations, but we do have a public company practice and are a PCAOB triennially inspected firm.

In general we support the overall approach within the ASU. Our comments are limited to responses to the Board’s questions.

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.

Please note introductory information above.
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?

We do not believe any private entities should be excluded.

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?

We believe the Board should expand the scope of this ASU to the not for profit entities. In addition, we believe that a study be undertaken with respect to public entities to ascertain whether elements of this ASU may be useful for those entities. In particular, consideration of the revision to step 2 to eliminate the hypothetical purchase price allocation might be a valuable improvement. It is quite a costly process for any type of entity to apply and at the end of the day we do not believe it adds anymore information for users. It seems that the concept of measurement of impairment at the reporting unit level, with a direct charge to goodwill for the difference between carrying value and fair value might be a cost saving alternative without major diminishment of decision making usefulness.

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

Clearly this ASU would reduce costs for entities applying the accounting alternative. Relieving the need of annual evaluations without a triggering event, amortizing the balance and finally eliminating step 2 will be a relief for private entities.

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 the accounting alternative will provide enough relevant information for users. As noted the disclosure related to the need for an impairment charge is probably the most relevant information. This will serve as a “red flag” for users, leading to additional inquiry of management as to what changes are happening to the business to necessitate an impairment charge.

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?

We agree with the shorter of 10 years or the life of the primary asset. This concept is well understood and will bring some consistency to accounting in private entities and may improve comparability for users.
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?

In our experience, most entities seek to have the entity be the reporting unit, in order to avoid the need for asset allocations, etc. As such this approach is much more expeditious and easier to apply. Since the importance of the triggering events and the associated disclosure are almost more important than the actual charge, this solution is better.

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?

Yes we agree with using the triggering event concept to require impairment testing.

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 have a difficult time understanding the rationale for this distinction. It seems that if an entity has encountered a triggering event requiring testing for impairment that it is counter intuitive to conclude that the qualitative assessment would result in a different conclusion. We suggest that in fact if the triggering events occur, the impairment test should be a quantitative process. This also would be comparable to the need for quantitative assessment once the triggering events occur for long lived tangible and intangible assets. Perhaps the Board should consider whether or not gross cash flows are sufficient to cover the amortization of the goodwill over the remaining life. This may be the easiest approach and it is well understood.

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?

Yes this is a major improvement over the current approach. It is difficult and expensive to apply the hypothetical purchase price currently required in step 2. Many preparers and auditors seek creative ways to avoid this approach and simply write off the balance of goodwill when there is a known impairment.
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.

The required disclosure would be useful for users and not burdensome for preparers.

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 believe that users should have the option of retrospective application, with a cumulative effect change. This would be particularly useful in situations where the transaction, perhaps goes back to the adoption of FAS 142. In this case, entities may want to rapidly complete the write off of the goodwill rather than need to carry it (and analyze for triggers) for another ten years. Adequate disclosure should handle users concerns as to the cumulative effect charge.

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, but subject to comment in question 12 about permitting retrospective application.

Question 14: When should the alternative accounting method be effective? Should early application be permitted?

The alternative accounting method should be the same effective date as the ASU related to accounting for intangible assets acquired in business combination. Early application should be permitted.

Question 15: For preparers and auditors, how much effort would be needed to implement and audit the proposed amendments?

We believe transition to this method will be relatively straightforward, especially if the entity adopts prospective application.

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

No comment
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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.)

We do believe that these standards should be applied consistently. And therefore entities adopting the alternative accounting for intangibles should be required to adopt the alternative method for goodwill and amortize the recorded amount.

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.

We agree with the Board’s tentative decisions, but request guidance as the definition of a conduit debt obligor, as we have noted some diversity in practice.
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Once again we commend the Board on taking up this important initiative to reduce complexity in financial reporting for private companies. This is another step along that journey.

Sincerely yours,

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