



August 23, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Via e-mail – director@fasb.org

Re: File Reference No. PCC-13-01A. Proposed Accounting Standards Update: Business Combinations (Topic 805): *Accounting for Identifiable Intangible Assets in a Business Combination – a Proposal of the Private Company Council*

Plante & Moran PLLC (Plante Moran) is the 11th largest public accounting firm in the United States and serves a wide range of non-public entities in multiple industries. We appreciate the efforts of the Private Company Council (PCC) and the Financial Accounting Standards Board (Board) to address the unique needs and financial reporting characteristics of private entities. Following, please find our responses to the specific Questions for Respondents in the above referenced Exposure Draft, along with an additional following comment.

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.

Response 1: Plante Moran is a public accounting firm with approximately 270 partners and over 2,000 staff. While we serve both public and private entities, a significant portion of our practice is devoted to private entities in numerous industries.

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?

Response 2: There are no types of entities or transactions or accounts that we believe should be excluded from the scope of the Proposed Update. However, there may be circumstances where an intangible asset that does not meet the criteria for recognition under the accounting alternative (for example, an intangible asset arising from a contractual right with cancelable contractual terms) is sold shortly after acquisition. If the intangible asset is not initially recognized, the entity would recognize a gain for the net proceeds, as there would be no asset to derecognize upon sale. As such, we suggest that the PCC and Board consider whether recognition of intangible assets not meeting the criteria for recognition under the accounting alternative be permitted when an entity intends to sell or transfer an intangible asset shortly after acquisition.

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?

Response 3: We believe that the scope of the accounting alternative should be extended to not-for-profit entities without modification. While certain not-for-profit entities have some form of public accountability (resulting from the solicitation of contributions from the public, use of public funds in the form of grants, or other activities), not-for-profit entities in general are more similar to private entities than public entities. In particular, our experience has been that the users of not-for-profit entity financial statements are similar to users of private company financial statements and would benefit from the accounting alternative. We acknowledge that the Board currently has projects on its active agenda to address several aspects of financial reporting for not-for-profit entities that could affect the accounting for intangible assets acquired in a business combination. However, until those projects are completed, we believe that not-for-profit entities should be able to elect the accounting alternative.

With respect to public companies, we do not believe it would be appropriate at this time to extend the accounting alternative to these entities. While users of public company financial statements may have the same concerns as users of private company financial statements, the Board and the International Accounting Standards Board have invested significant time and resources toward convergence of US GAAP and the International Financial Reporting Standards (IFRS) and the accounting alternative for intangible assets would create potentially significant differences with IFRS. We would suggest that an appropriate time to consider the accounting alternative for public companies would be after the completion of the Joint FASB/IASB Projects.

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

Response 4: Yes.

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?

Response 5: Yes. The concept of goodwill is well established and understood by users of US GAAP financial statements and the recognition of intangible assets that do not meet the contractual and legal criteria of the accounting alternative as part of goodwill will continue to provide users of private company financial statements with relevant and decision-useful information. Conversely, if an entity and its financial statement users believe the separate recognition of all intangible assets meeting the current US GAAP guidance provides the most relevant information, the accounting alternative need not be elected.

One concern we have is that the recognition of intangible assets as part of goodwill under the accounting alternative lessens the likelihood of recognizing, or diminishes the amount of, a gain from a bargain purchase. This could have an impact on a financial statement user's view of an acquisition since a bargain purchase gain implies that the purchase price is less than the fair value of the assets acquired, and the user will not be able to discern the "true" gain, even though the disclosures will indicate that certain intangible assets have not been recorded. This is of particular concern when goodwill is recognized using the accounting alternative, whereas a gain from bargain purchase would have been recognized had the accounting alternative not been elected.

This appears to us to be an unavoidable consequence of the accounting alternative, and reporting entities will need to decide upfront as to whether they are willing to accept this consequence at the time the guidance becomes effective. We do not believe, however, that this concern should result in a modification of the proposed guidance.

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

Response 6: We agree that recognition and measurement should be limited to the non-cancelable term of the contract and we agree with the proposed definition of a non-cancelable contractual term. We also agree that market participant expectations about potential renewal or cancellation of the contract do not need to be factored into the measurement. It has been our experience that assumptions about potential renewal or cancellation of a contract are highly subjective and are at times given little or no weight in the valuation measurement. Additionally, the accounting alternative would result in simpler methodologies for measuring intangibles and we do not foresee any additional costs or complexities using this approach.

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?

Response 7: 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.

Response 8: Yes, we agree that users of financial statements will find disclosure of the nature of identifiable intangible assets not recognized separately relevant to their understanding of an entity's financial statements, especially in situations in which the accounting for a business combination involves a gain from a bargain purchase, as previously mentioned. In addition, because most users of private company financial statements have access to management, they will be able to request additional information about the assets not recognized, if desired. However, we suggest that the PCC and the Board consider limiting specific disclosure of the intangible assets not recognized to only the intangible asset that is determined to be the primary asset acquired. Alternately, if the PCC determines there is value in disclosing all of the identifiable intangible assets not recognized separately, we recommend that the entity disclose the primary asset (or assets) to assist the financial statement user in understanding the significance of the assets acquired.

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.

Response 9: Yes, we agree that the Proposed Update should not require other additional disclosures beyond those in other Topics. However, given the potentially significant differences in accounting between the accounting alternative in the Proposed Update and other US GAAP, appropriate accounting policy disclosures will be of utmost importance in ensuring that financial statement users understand the accounting alternative elections a private entity has made in preparing its financial statements. We believe that the current requirements in ASC 235-10-50 provide adequate guidance regarding the need to disclose accounting policies. Nevertheless, given the significance of the accounting policy disclosures, we recommend that a cross-reference to the accounting policy disclosure requirements in ASC 235-10-50 be considered in the disclosure requirements in the Proposed Update. A sample accounting policy disclosure for an entity that has elected to use the accounting alternative should also be considered in the implementation guidance in the Proposed Update.

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

Response 10: Yes, we agree that the Proposed Update should be applied on a prospective basis. While retrospective application of the Proposed Update would not be difficult in most circumstances, there would be a question of how the additional amounts reported as goodwill would be accounted for at the date of implementation. For example, how would the newly recognized goodwill be accounted for if a goodwill impairment loss had been recognized in a prior period? An entity could be put in a situation where it is required to make judgments about a point in time in the past without the ability to differentiate between information that would have been known at that time and information that would have been learned at a later date. We believe that prospective application is the only practical means of implementing the Proposed Update.

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

Response 11: We recommend allowing the alternative accounting method to be used when the finalized guidance is released.

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

Response 12: We do not believe there would be significant effort associated with implementing and auditing the proposed amendments as the underlying concepts are well established in current US GAAP.

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

Response 13: N/A

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.)

Response 14: We believe that if an entity elects the accounting alternative in this Proposed Update, the entity should also be required to apply the proposed accounting alternative for the subsequent measurement of goodwill. Because many of the identifiable intangible assets not recognized separately from goodwill would be amortized had the accounting alternative not been elected, we believe it would be inappropriate for those amounts to be included in goodwill subject only to an impairment test. Under current US GAAP, goodwill is considered to have an indefinite life and could remain on the books of an entity for a significant period of time. Under current US GAAP, goodwill is measured as a residual and the impairment model approach generally produces a result that is consistent with the underlying economics. However, if assets that would otherwise have a finite life are not recognized apart from goodwill, we believe that amortization of goodwill would be required to avoid circumstances where recognized intangible assets are not consistent with the underlying economics.

On the other hand, we do not believe that an entity that elects the accounting alternative for goodwill should be required to adopt the accounting alternative in this Proposed Update. If an entity elects to follow the accounting alternative for goodwill but not the accounting alternative for identifiable intangible assets, the likely result is simply an accelerated write-off of goodwill with no resulting impact on other intangible assets. There would be a much lower likelihood that the resulting accounting would not reflect the underlying economics.

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

Response 15: We do not agree with the Board's tentative decisions reached about the definition of a public business entity. For conduit bond obligors, we believe that the conclusion should be based on (1) whether the securities are unrestricted and can be traded on an exchange or over-the-counter market; **and** (2) whether the business entity is required to or elects to make its financial statements publicly available.

In the proposed definition of a public business entity, criteria (a), (b) and (d) are predicated on whether the entity is required to make its financial statements publicly available. Assuming an entity is under the aggregate debt limits of SEC Rule 15c2-12 and has not agreed in the initial offering document to make its financial statements publicly available, the entity is not required to make its financial statements available to investors in the conduit bonds. The treatment of all conduit debt obligors with unrestricted securities that can be traded on an exchange or an over-the-counter market as public business entities is inconsistent with the premise that making financial information publicly available is the defining characteristic of a public business entity. Accordingly, we do not believe conduit debt obligors should be considered public business entities unless the entity's financial statements are made publicly available.

Lastly, we would expect that only entities with little or no expectation of becoming a public business entity will adopt the accounting alternative. We would also expect that occasionally a business entity that has adopted the alternative will move into the public arena. The proposed guidance is silent with respect to this circumstance. We therefore believe that the effect of this situation would result in a need to reflect an accounting change in the financial statements in the year of the change under ASC 250-10. We do, however, recommend that guidance be added regarding this situation.

Technical Director
Financial Accounting Standards Board

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PCC-13-01A
Comment Letter No. 34
August 23, 2013

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the PCC, the Board or its staff may have about these comments. Please direct any questions to Joan Waggoner (joan.waggoner@plantemoran.com or 312.980.2945), or David Grubb (david.grubb@plantemoran.com or 248.223.3745).

Very truly yours,

PLANTE & MORAN, PLLC