

August 23, 2013

Ms. Sue M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

File Reference No. PCC-13-01A

Re: Proposed Accounting Standards Update, *Accounting for Identifiable Intangible Assets in a Business Combination*

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to provide feedback on the FASB's proposed Accounting Standards Update (ASU) *Accounting for Identifiable Intangible Assets in a Business Combination*.

We appreciate the efforts of the FASB and Private Company Council (PCC) to address the accounting and financial reporting needs of private companies and believe it is important to use the proposed *Private Company Decision-Making Framework — A Guide for Evaluating Financial Accounting and Reporting Guidance for Private Companies* (the "Decision Framework") when determining whether accounting alternatives should be available to private companies. However, because the Decision Framework has not been finalized, there is a risk that the proposed changes in this ASU will not be appropriately vetted against the final Decision Framework. Accordingly, we believe that any final decisions made regarding this proposed ASU should not precede the finalization and issuance of the Decision Framework.

Because the accounting alternative in this proposed ASU allows for differences pertaining to the recognition and measurement of intangible assets, we want to reiterate the beliefs we previously expressed in our comment letter on the FASB's Invitation to Comment *Private Company Decision-Making Framework*, including the following:

1. There should be a rebuttable presumption that accounting standards for public and nonpublic companies should be the same except when differences are justified.
2. There should be a higher threshold for differences pertaining to recognition and measurement (i.e., compared with presentation, disclosure, effective dates, etc.).
3. Amendments to the Codification generally should not deviate from the conceptual framework.

Given our beliefs, we find it interesting that the first three amendments proposed by the Board and PCC would result in differences pertaining to recognition and measurement. We believe that the Basis for Conclusions should clearly articulate why such recognition and measurement differences are justified; such justification should extensively take into account various users' needs and not just primarily focus on reduced cost and complexity.

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Conceptually, we believe that identifiable intangible assets acquired in a business combination (i.e., those that meet the contractual-legal criterion or the separability criterion), except assembled workforces, should be recognized and measured separately from goodwill. We also recognize that the costs and operational difficulties associated with recording and measuring intangible assets that only meet the separability criterion are significantly high and are generally proportionally higher for private companies than for public companies. The post-implementation review of FASB Statement No. 141(R), *Business Combinations* (the “PIR Report”), noted that constituents found that measuring the fair value of assets acquired is one of the most operationally difficult aspects of the standard. In our experience, intangible assets, particularly those that do not contain contractually explicit cash flows, are some of the most costly and difficult assets to measure at fair value. In addition, it is not clear whether financial statement users find this information of significant benefit.

If the Board and PCC confirm that the benefits associated with separate recognition of identifiable intangible assets that only meet the separability criterion and measurement of these assets at fair value do not provide significant information to private-company financial statement users, we would not object to subsuming intangible assets that only meet the separability criterion into goodwill.

However, we disagree with certain aspects of the proposal. For instance, we disagree with not factoring market-participant expectations about the potential renewals or cancellations into the recognition and measurement of contractual intangible assets. We do not believe that this aspect of the proposal would result in significant cost savings and reduction in complexity for preparers. We also believe it would deprive users of important information and find it difficult to justify such a difference between the standard for public companies and that for private companies.

Finally, the proposed Decision Framework notes that one of the differences between public and private companies is the number of accounting resources. The framework indicates that one of the implications of fewer resources is the potential need to increase the amount of response time for private companies (e.g., for comments on exposure drafts). However, the comment periods for the first three PCC proposals are some of the shortest of any FASB proposal; we therefore recommend that future proposals have longer comment periods.

The appendix contains our responses to specific questions posed by the FASB in its request for comments on the proposed ASU.

Deloitte & Touche LLP appreciates the opportunity to comment on the proposed ASU. If you have any questions, please contact Robert Morris at (203) 563- 2357 or Adrian Mills at (203) 761-3208.

Yours truly,
Deloitte & Touche LLP

Cc: Robert Uhl

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Appendix A
Deloitte & Touche LLP

Responses to Proposed ASU's Questions for Respondents (File Reference No. PCC Issue No. 13-01A)

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?

We generally agree with the proposed ASU's scope.

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?

While we believe that it is likely that the issues identified by the Board are relevant to users and preparers of public-entity financial statements, we do not support extending the proposed accounting alternative to public entities for the following reasons:

- We believe that the current accounting model is conceptually sound and operational.
- While public-entity preparers have sometimes found measuring these separable intangibles challenging, the cost is generally not proportionally as high and we believe that the information is generally helpful to financial statement users.
- Changes to the current accounting model would result in divergence from IFRSs.

We believe the issues identified by the Board would most likely be relevant to not-for-profit entities and support outreach to determine whether the proposed accounting alternative should be extended to such entities.

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

Yes.

Question 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?

We disagree with the proposed approach and believe that market-participant expectations about the potential renewals or cancellations should be factored into the recognition and measurement of contractual intangible assets. Under the proposed approach, the value assigned to contractual intangible assets will not be representative of fair value and may vary greatly from entity to entity

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depending on the number of years remaining in the contract on the date of the business combination. In addition, because entities must already value this type of intangible asset under the proposed guidance, eliminating the need to consider market-participant expectations about potential renewals or cancellations will most likely not result in a significant reduction in cost and complexity for preparers and auditors.

If the Board concludes that recognition and measurement of contractual intangible assets are limited to the noncancelable term, we encourage the Board to clarify how to test these intangible assets for impairment and whether the cash flows used in the impairment test should be limited to the noncancelable term or whether market-participant expectations should be used.

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?

We agree.

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.

We agree.

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.

We agree.

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

We believe that the proposed ASU should be applied prospectively. Retrospective application should not be permitted.

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

The alternative accounting method should become effective for reporting periods beginning on or after December 15, 2013. We recommend that the Board allow entities to early adopt the proposed amendments.

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

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We generally believe that minimal effort would be needed to implement and audit the proposed amendments.

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.)

We believe that if an entity elects the proposed accounting alternative, the entity should also be required to apply the PCC's proposed accounting alternative for the subsequent measurement of goodwill. If an entity elects the proposed accounting alternative for intangible assets, certain intangible assets that only meet the separability criterion would be subsumed into goodwill. If an entity is not required to apply the proposed accounting alternative for the subsequent measurement of goodwill, intangibles with finite lives that are subsumed into goodwill would not be amortized.

However, we believe it would be acceptable for an entity to elect the accounting alternative for the subsequent measurement of goodwill and not elect the proposal's accounting alternative.

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.

We intend to answer this question in our comment-letter response on the Board's recently issued proposed ASU *Definition of a Public Business Entity: An Amendment to the Master Glossary*.

Other Considerations

Impairment Test for Indefinite-Lived Intangible Assets

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In our comment letter on PCC Issue No. 13-01B, we suggested that the proposed accounting alternative be amended to require a finite life for all intangible assets (i.e., even those that are indefinite-lived), which would allow for further cost savings. Impairment tests for indefinite-lived intangible assets are often just as complex and costly as an entity's annual goodwill impairment analysis.

Indirect Impact of the Proposed Accounting Alternative

We recommend that the Board specifically address the following questions:

- In situations in which public entities have unconsolidated investments in private entities that apply the proposed accounting alternative (e.g., equity-method investees), would those public entities be required to make adjusting entries to undo the application of any private-company alternatives?
- In situations in which a private entity elects this proposed accounting alternative and subsequently decides to become a public entity, would those private entities be required to restate their financial statements or would the Board provide transition guidance on how to change the entity's accounting policy election on a prospective basis?