

August 23, 2013

**SENT VIA EMAIL**

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

File Reference: PCC-13-01A, *Business Combinations (Topic 805), Accounting for Identifiable Intangible Assets in a Business Combination*

Dear Ms. Cospers:

Moss Adams LLP is pleased to provide a response to the Financial Accounting Standards Board's Proposed Accounting Standards Update, *Business Combinations (Topic 805), Accounting for Identifiable Intangible Assets in a Business Combination* (the "proposed ASU").

**Moss Adams LLP** is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 2,000, including more than 260 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit and governmental organizations.

We appreciate the efforts of the Private Company Council (PCC) and the Financial Accounting Standards Board (FASB) to simplify generally accepted accounting standards for private companies, and encourage the FASB to consider ways to also simplify accounting and disclosure requirements for public companies.

We support the provisions in the proposed ASU that permits entities to record certain identifiable intangibles with noncancelable contract terms or other legal rights that are acquired in a business combination separately from goodwill. We also support permitting certain identifiable intangibles being included with goodwill that do not meet the contractual and legal criterion as this should reduce the overall cost to private companies in accounting for intangibles acquired in a business combination and reduce the complexity of the valuation for the intangibles reporting separately from goodwill. We believe that it would be beneficial to expand the scope of this proposed ASU to not-for-profit entities that do not meet the public company definition, as they could realize similar benefits as private companies in applying the accounting alternative.

## MOSS-ADAMS<sub>LLP</sub>

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We are concerned, however, on the lack of consideration given by the PCC to the possibility that a private company within the scope of the proposed ASU may no longer be within the scope of the accounting alternative at a future date. This may arise when a private company becomes a public company, or if future regulatory requirements or the needs of financial statement users do not permit application of the accounting alternative. We believe the lack of guidance in the proposed ASU with respect to “undwinding” the accounting alternative needs to be addressed by the PCC and the Board. All of the proposals currently issued by the PCC are subject to the same concern, and this issue may reduce the number of entities that would otherwise apply the guidance in the proposed ASU. We strongly encourage the FASB and the PCC to quickly clarify how an entity should unwind its application of the accounting alternative when it is either no longer in the scope of the guidance or is required by a financial statement user to no longer apply the accounting alternative.

Our response and related comments to the specific questions included within the proposed ASU are contained in the Attachment to this letter.

We would be pleased to discuss our comments with the Board members, the PCC members, or the FASB staff at your convenience. If you would like to discuss our comments or have any questions, please contact Alison Sellers in our Professional Practice Group at 206-302-6800.

Yours truly,

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Enclosures



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**ATTACHMENT 1**

The following are responses to selected questions in the proposed ASU:

**Question 1 – Please describe the entity or individual responding to this request:**

Please see the description of Moss Adams in our cover letter.

**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 scope of the proposed guidance.

With the recent issuance of the exposure document on the definition of a public entity, the Board and the PCC should align the scope of the accounting alternative with the final definition of a public entity determined by the Board.

**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?**

The Board should consider expanding the scope of the accounting alternative to not-for-profit entities that do not meet the public company definition. While certain intangibles acquired by a not-for-profit entity in an acquisition are not allowed to be separately identifiable under ASC 958-805, there could be circumstances when the accounting alternative could benefit not-for-profit entities to reduce the costs and complexities of accounting for intangible assets acquired in a business combination.

Further outreach with users of public company financial statements should be undertaken to understand whether the relative benefits received in applying the existing guidance are justified by the cost of preparing that information.

If the scope of the proposal is expanded to other entities, the accounting alternative should continue to be elective. We believe it is important that the accounting alternatives being proposed by the PCC be elective, as regulators or other financial statement users may discourage or prohibit their adoption.

In addition, if an entity were to acquire a significant amount of identifiable intangible assets that would generally not be recognized separately under the accounting alternative, the entity may feel that the assets acquired would be best presented under the current method of accounting. Finally, for private companies that are considering the public markets or likely to be acquired by a public company, the accounting alternative may not be the best method of reporting. Currently, there is no guidance on a change in accounting policy should the entity need to reverse the election to account for intangibles in a business combination under the accounting alternative.



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

The proposed amendments would have some reduction on the overall costs and complexity of accounting for business combinations, but it may not be as significant as the PCC intended to meet the overall objective of reducing costs. Many private companies do not have the sophistication or resources to perform valuations internally and are required to hire a valuation firm to determine the fair value of acquired intangible assets. There would be some cost reduction in the valuation work required by excluding the intangibles that are not attached to contractual rights as the fair value of these intangibles can be more difficult and subjective to value, though if an outside valuation firm is needed to perform the work, the cost savings may not be significant. The overall complexity of Topic 805 would be reduced under the accounting alternative as the many of the more subjective and harder to value identifiable intangible assets would no longer be recognized.

**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?**

We agree that the accounting alternative would provide relevant and decision useful information to the users of private company financial statements. The users of the private company financials are also likely to have direct access to management to make additional inquiries, if needed, to gain a better understanding of transactions and the impact of the transactions to a company's financial position and overall performance.

**Question 6 – Do you agree that for contractual intangible assets, recognition and measurement should be limited to the noncancelable terms 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 agree that for contractual intangible assets recognition and measurement should be limited to the noncancelable terms of the contract under this accounting alternative. By limiting the measurement to only consider the noncancelable term of the contract, the proposed ASU will eliminate a subjective estimate that can be costly to determine, particularly if management is not able to fully evaluate the estimate without the use of a valuation specialist.

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We agree with the overall definition of a noncancelable contractual term and that market participant expectations should not be factored into the measurement. We believe that for items b. and c. under section 805-20-25-31, the use of the term “remote” could be removed from the required criteria for noncancelable contracts. By rephrasing these definitions, the reporting entity would have a more practical threshold for determining whether or not a contract is cancelable. We suggest the following changes:

805-20-25-31

- b. At the option of the counterparty but with a penalty in such amount that it is probable cancellation is remote at the acquisition date that the contract will not be canceled.
- c. ~~Upon the occurrence of~~ It is probable that some ~~remote~~-contingency will not occur.

This accounting alternative would reduce the cost and complexity by eliminating the estimation of potential renewal cancellations of the contract based on market participant expectations.

**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 that intangible assets arising from other legal rights should continue to be measured at fair value consistent with Topic 820. Estimating fair value under Topic 820 may be more costly than other measurement techniques, but that measurement technique is the fundamental underpinning for the recognition and measurement model in Topic 805.

**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.**

Yes, by including the nature of the identifiable intangible assets in the footnotes, an entity’s financial statements will provide the users with more transparency of the assets that have not been recognized separately in the financial statements.

**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 that no new incremental disclosure should be required.

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

Yes, for implementation of the accounting alternative for identifiable intangibles assets, there does not seem to be any compelling reason to require retrospective application of the proposed ASU. Retroactive application could be permissible as the primary impact to the financial statements would be a reclassification of assets on the balance sheet and revised disclosures surrounding the identifiable intangibles and the non-contractual intangibles included in goodwill resulting from prior business combinations. Retrospective application may not be practical unless a reporting entity also adopts the PCC's proposal on accounting for goodwill, due to the need to reconsider goodwill impairment in historical periods under existing U.S. GAAP.

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

The PCC should provide a year from the issuance of the final ASU for the guidance to be effective. Entities within the scope of this guidance appear to have a one-time election on applying the guidance, and a year should provide sufficient time to consider the impact of electing the accounting alternative. Early application of the accounting alternative should be permitted, as the negative consequences of early application would be outweighed by the benefits to preparers.

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

The increase in effort for implementation and auditing of the proposed amendments would not be significant. The time required to audit intangibles obtained through a business combination could be reduced if the proposed accounting alternative is adopted by the private company, depending on the nature of the assets acquired.

**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.)**

No, we do not feel that adoption of the accounting alternative for the subsequent measurement of goodwill should require an entity to adopt this proposed ASU, or vice versa.