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August 23, 2013

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

File Reference No. PCC-13-01B

Re: Proposed Accounting Standards Update *Accounting for Goodwill*

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to provide feedback on the FASB's proposed Accounting Standards Update (ASU) *Accounting for Goodwill*.

We appreciate the FASB's and PCC's efforts to address the accounting and financial reporting needs of private companies and believe that the proposed *Private Company Decision-Making Framework — A Guide for Evaluating Financial Accounting and Reporting Guidance for Private Companies* ("Decision Framework") should be used to determine whether accounting alternatives for private companies are warranted. Because the Decision Framework has not been finalized, however, there is a risk that the proposed changes in this ASU will not be consistent with 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 subsequent measurement of goodwill, we want to reiterate our beliefs previously provided in our response to the FASB's *Invitation to Comment, Private Company Decision-Making Framework*:

- There should be a rebuttable presumption that accounting standards for public and nonpublic companies should be the same and that differences should be justified.
- There should be a higher threshold for differences pertaining to recognition and measurement (i.e., compared with presentation, disclosure, and effective dates).
- 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 create differences pertaining to recognition and measurement. We believe 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.

Conceptually, we support the current accounting model for goodwill because goodwill is not necessarily an amortizing asset. However, we acknowledge that the costs of applying the current accounting model for goodwill may outweigh the benefits that users of private-company financial statements derive from its application. If the Board and PCC confirm through this process that the

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current model is not useful to users of private company financial statements and the costs of the current model clearly outweigh the benefits, we can support amortizing goodwill.

Our recommended approach for the period over which goodwill is amortized differs slightly from the approach in the proposed ASU. We do not agree with limiting the amortization period to 10 years without first applying a principle that does not impose an artificial limitation. There may be justifiable instances in which the life of goodwill is clearly longer than 10 years. However, given the nature of goodwill determining a reliable estimate of its life may not be clear and may be challenging in other situations. Thus, the Board could consider making it a rebuttable presumption that the amortization period for goodwill does not exceed 10 years unless overcome with sufficient evidence. Therefore, if not rebutted, the life would be the shorter of 10 years or the life of the primary asset.

In addition, we recommend that the guidance in the proposed ASU, should require entities to amortize all intangible assets if an entity adopts a policy to amortize goodwill.

On a conceptual level, we also support the other aspects of the current goodwill impairment model. At the same time, we understand that users of private-company financial statements might not derive decision useful information from the reporting unit concept or the two-step impairment calculation. While the Board's initial outreach appears to indicate that the proposed changes may be justified, we recommend that the Board confirm that is the case based on the specifics of this proposal. Once confirmed, we support performing the impairment test at the entity level and calculating the impairment in a single step in accordance with the proposed ASU. However, we recommend that the Board and PCC also allow entities to perform the impairment test at the reporting unit level.

Finally, the proposed Decision Framework notes that one of the identified differences between public and private companies is the number of accounting resources. The proposed framework states that one of the implications of this disparity is the potential need to increase the amount of time for private companies to respond, including response times to exposure drafts. However, the first three proposals from the PCC contain some of the shortest comment periods provided for FASB accounting proposals, and we recommend that future proposals allow for longer comment periods.

The appendix to this letter 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 regarding our comments, 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-13-01B)

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 generally agree with the proposed ASU's scope. However, see our responses to questions 3 and 6, respectively, for our views on the application of the proposed ASU to public companies and not-for-profit entities, as well as other indefinite-lived intangibles.

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?

While we believe that it is likely that the issues identified by the Board are relevant to users and preparers of public entities' financial statements, we do not support extending all aspects of the proposed accounting alternative to public entities because the current accounting model is conceptually sound and does not appear to have the same cost/benefit imbalance that may exist for private companies. In addition, some of the proposed changes to the current accounting model would result in divergence from IFRSs. However, we support additional outreach to determine whether a single-step impairment method, like that used under IFRSs, should be extended to public companies.

We believe that the issues identified by the Board are likely to be relevant to not-for-profit entities. We support additional outreach to determine whether the proposed accounting alternative should be extended to not-for-profit 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 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?

Not all goodwill declines in value, and goodwill that does decline in value rarely diminishes on a straight-line basis. However, we recognize that the information needs of users of private-company financial statements may differ and that the costs and operational difficulties associated with the nonamortization accounting model *may* exceed the benefits to users of financial statements for private companies. Thus, we support allowing private companies to amortize goodwill on a straight-line basis, provided that users of such entities' financial statements confirm that any information lost is not of significant benefit.

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We do not agree with limiting the amortization period to 10 years without first applying a principle that does not impose an artificial limitation. There may be justifiable instances in which the life of goodwill is clearly longer than 10 years. However, given the nature of goodwill determining a reliable estimate of its life may be challenging in other situations. Thus, the Board could consider making it a rebuttable presumption that the life of goodwill does not exceed 10 years unless it could be overcome with sufficient evidence. Therefore, if not rebutted, the life would be the shorter of 10 years or the life of the primary asset.

We further recommend that the proposed ASU require entities that choose a policy to amortize goodwill to also amortize all intangible assets and determine the amortization life in a similar manner.

Amortizing all intangible assets (including other indefinite-lived intangibles) would be consistent with amortizing goodwill. We note that indefinite-lived intangibles raise cost-benefit issues similar to those that led to the PCC's goodwill alternative. Requiring the amortization of all intangible assets would address our concern that an entity's primary asset for purposes of amortizing goodwill may be a separately recognized indefinite-lived intangible asset (e.g., a trade name), in which case goodwill would not be amortized. In our view, that would not be an appropriate outcome because goodwill would potentially include amounts associated with finite-lived intangibles that are no longer separately recognized, given the Board's proposed ASU on accounting for identifiable intangible assets in a business combination. We also recognize that this would be similar to the *IFRS for SMEs* guidance that specifies that "all intangible assets shall be considered to have a finite useful life. . . ."

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?

As discussed in paragraphs B119 and B120 of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, goodwill is associated with the operations of an entity at different levels — e.g., the levels within an acquiring entity that are expected to benefit from the synergies of the business combination. While the Board's initial outreach appears to indicate that the proposed changes may be justified, we recommend that the Board and the PCC confirm (based on this specific proposal) with users of private-company financial statements that any information that may be lost by using an entity-wide level approach is not significant — if the Board and the PCC confirm that this is the case, we could support an option to test goodwill for impairment at the entity-wide level.

Some nonpublic entities may have reporting systems and processes in place to test goodwill for impairment below the entity-wide level. Testing goodwill for impairment at the entity-wide level and then allocating impairment loss to individual amortizable units of goodwill may result in additional costs and complexities for these entities. We believe that such entities should be given the option to test goodwill for impairment at the reporting unit level.

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

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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?

Requiring an annual goodwill impairment test is not likely to pass the cost-benefit test if goodwill is being amortized. Therefore, we agree that it is appropriate to test goodwill for impairment only when a triggering event occurs.

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 that the assessment of triggering events should be performed in a manner consistent with how entities currently assess for goodwill impairment between annual tests. Further, we agree that there should be a difference between how an entity performs its assessment of triggering events and how it performs the qualitative assessment.

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?

The current two-step accounting model for impairment of goodwill is conceptually sound. However, we recognize that the benefits derived from applying step 2 of the goodwill impairment test may not outweigh the cost of doing so. Therefore, we would support the proposed one-step method.

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.

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

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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?

We recommend using the remaining useful life as determined at the date of adoption under our approach described in the response to question 6.

Question 14: 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 allowing early adoption of the proposed guidance.

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

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

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.)

If an entity elects the accounting alternative in the PCC's proposal on intangibles, that entity should also be required to apply this proposed ASU. If an entity elects the proposed accounting alternative for intangible assets, certain intangible assets that meet only the separability criterion would be subsumed into goodwill, in which case those intangible assets will not be amortized if the entity is not required to apply the proposed accounting alternative for the subsequent measurement of goodwill.

However, we believe that it would be acceptable for an entity to elect the accounting alternative for the subsequent measurement of goodwill and not elect the proposed accounting alternative in Topic 805.

*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:*

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- 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 comment on the proposed definition of a public business entity in response to the recently issued proposed ASU *Definition of a Public Business Entity — An Amendment to the Master Glossary*.

Other Considerations

Indirect Impact of the Proposed Accounting Alternative

We recommend that the Board specifically address the following questions:

- If 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?
- If a private entity elects this proposed accounting alternative and subsequently decides to become a public entity, would the entity be required to restate its financial statements, or would the Board provide transition guidance on how to change the entity's accounting policy election prospectively?