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Susan M. Cosper, CPA
Technical Director
FASB
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**Re: July 1, 2013 Exposure Draft of a Proposed Accounting Standards Update (ASU),
*Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a
Business Combination* [File Reference No. PCC-13-01A]**

Dear Ms. Cosper:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC is comprised of 13 practitioners from CPA firms of varying sizes ranging from less than 10 professionals to more than 1,000 professionals. All member firms focus on audits of nonpublic entities; some firms also audit public companies or public employee benefit plans.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the efforts of the PCC to reduce the cost and complexity of accounting for identifiable intangibles in a business combination through this proposal, but the majority of TIC members believe that the proposal does not go far enough in reducing cost/complexity for many private entities. TIC's preferred alternative is to adopt an "all or nothing" approach to the recognition of identified intangibles, which would provide an option to subsume all identified intangibles into goodwill at the acquisition date. If the preferred alternative cannot be adopted, then TIC's second choice is to revise the

alternative to limit separate recognition to only those contractual-legal intangible assets that are also separable.

However, TIC also believes that broader projects may be necessary to re-examine the criteria for fair value measurements and to simplify the accounting for identifiable intangibles and goodwill in a business combination.

These and other comments are discussed in more detail below.

SPECIFIC COMMENTS

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?*

TIC noted that the ED already excludes public companies and not-for-profit organizations (NFPs) from the scope of the proposal. TIC understands that the Private Company Council (PCC) established the stated exclusions to be consistent with the scope of the proposed Private Company Decision-Making Framework. (See TIC's response to Question 3 below for TIC's views on these exclusions.) TIC did not identify any other types of entities that should be excluded from the scope of the ED.

TIC believes other intangible assets should be part of the proposed accounting alternative. Please see TIC's response to Question 5 for details.

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?*

TIC has decided not to comment on expanding the scope of the accounting alternative to publicly traded companies. However, if the Board decides to do so, it should be structured as a separate project and should not delay the issuance of this ED for private companies.

However, TIC supports expanding the scope of the accounting alternative to NFPs, which, by their nature, may have even greater cost burdens in obtaining valuations of identifiable intangibles than other private entities. In addition, valuation of certain identifiable intangibles (such as donor lists) is also of questionable reliability. Users of the financial statements of NFPs are also likely to remove the identified intangibles from their ratios and other calculations of the viability of the organization. Therefore, NFPs have essentially the same relevance and cost/benefit issues as other private entities and have a special need for inexpensive and simple accounting alternatives, wherever possible.

TIC did not discuss whether the accounting alternative should be elective for not-for-profit organizations or whether changes to the recognition, measurement and disclosure of identifiable intangibles should be adopted.

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

TIC believes the proposed amendments in this ED are a step in the right direction, but TIC is uncertain whether costs for most private entities would be significantly reduced. To the extent that fewer intangibles would be subject to a valuation exercise, there would be limited cost savings for some entities.

However, TIC believes the primary cost/complexity burden for private entities arises from the fair value methodology of ASC Topic 820 (Fair Value Measurements), including the required use of market participant inputs and, to a lesser extent, the requirements of ASC Topic 805 (Business Combinations). This includes obtaining fair values for Level 3 inputs and the application of the market participant notion in valuing certain identifiable intangible assets. Most private companies do not have the in-house skills to calculate the fair value of the identifiable intangible assets for which separate recognition is required under this proposal. Therefore, most entities will still need to hire outside valuation specialists to calculate fair value measurements for the acquired intangible assets required to be recognized.

As discussed further under Question 8 below, TIC believes the proposed disclosures in paragraph 805-20-50-6 of the ED are irrelevant to most financial statement users and actually add complexity. In addition, the proposed disclosures imply that a private company has the ability to identify all intangibles in a business combination when such may not be the case.

To accomplish significant reductions in cost and complexity, TIC has offered alternative proposals, which are discussed in detail under Question 5.

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?*

TIC believes that no one answer would apply across the board to all private companies. Relevance and decision-usefulness relating to the separate recognition of identifiable intangible assets can be a function of the size of the entity, how frequently it enters into business combinations, the industry in which it operates, who the primary users are, and the nature of the identifiable intangible assets. The accounting alternative will not be universally accepted across all private entities, but this is why the alternative should be an option, not a requirement. As such, the option is a step forward, but is not as robust as it could be.

A majority of TIC members believe that an “all or nothing” recognition and measurement approach is preferable. Under this approach, all intangible assets would be either subsumed into goodwill or recognized and measured in accordance with ASC Topic 805. The members who hold this view assert that most lenders disregard goodwill and the identifiable intangible assets acquired because these values cannot be used as collateral for asset-based lending. They believe that financial statement users for the overwhelming majority of private entities that engage in business combinations do not find any relevance in goodwill or intangible assets. Therefore, they conclude that an “all or nothing” approach would maximize relief for those entities that need it most without compromising user needs. Some of these members also believe that it does not make sense to separately recognize certain intangible assets (such as a customer list) when such assets cannot be recognized if internally developed.

Other TIC members disagreed saying that separate recognition and measurement of certain identifiable intangibles can be relevant for the company and its financial statement users. One example mentioned during a recent TIC meeting was a large, private multinational company that wanted to separately recognize certain intangibles that were a key aspect of each of ten acquisitions that occurred in a particular year. Other examples were based on industry-specific concerns, such as a radio station with an acquired FCC license or acquired licenses for a business combination involving a fleet of fishing boats. The minority view therefore supports the accounting alternative proposed in the ED since it would eliminate the valuation of the identifiable intangibles that are the most difficult to measure under ASC Topic 820 (Fair Value Measurement), such as customer lists.

Although the majority view acknowledges that some entities and the users of their financial statements may benefit from separate recognition and measurement of certain intangibles, the majority believes that this is not the view held by most private companies and their lenders. Therefore, TIC’s consensus recommendation is to revise the proposal to allow for opting out of separate recognition for all identifiable intangibles in favor of subsuming those amounts into goodwill (the “all or nothing” approach) whenever separate recognition would not be relevant to user needs. Those private entities that do not choose the accounting alternative would apply the accounting in ASC Topic 805. TIC’s recommendation would therefore afford the greatest relief to those entities that are most in need of it without compromising user needs.

If the Board and the PCC decide not to adopt the “all or nothing” approach outlined above, TIC proposes a second alternative in the form of an additional modification to the amendments suggested in the ED regarding recognition and measurement. This modification would provide some additional relief for many entities (compared to the proposal in the ED) without subsuming all identifiable intangibles into goodwill (the “all or nothing” approach).

TIC’s alternative proposal would therefore change the proposed criteria for recognition and measurement to: “identifiable intangibles that have noncancelable contractual terms

or other legal rights and meet the separability criterion.” This proposal would eliminate another layer of troublesome subjective measurements (such as certain contractual customer relationships, which lenders currently disregard) and therefore would go further in reducing the burdens on private companies than the proposed ASU. In TIC’s view, if an intangible asset does not meet the separability criterion, the implication is that it would not have the capacity to generate revenue from outside third parties for the entity. If it can’t generate revenue, then recognizing and measuring it separately at fair value would seem to have little value to financial statement users.

TIC also believes that the outcry for relief relating to certain identifiable intangibles may be indicative of more systemic problems with ASC Topics 805 and 820. Therefore, TIC requests that the PCC and the FASB undertake a project to revisit business combination accounting and the criteria for fair value measurements for private entities. TIC believes a significant component of the project would be to obtain more user feedback as to the importance of identifiable assets in a business combination across all entities. If separate recognition and measurement appears to be needed for certain constituents, then more information should be obtained from users as to the appropriate measurement attributes for private companies. Once the Board has better data on what elements are relevant to users and how users apply fair value measurements in their decision-making, a more definitive solution may be more obvious.

TIC noted that the FASB’s May 30, 2013 response to the May 22, 2013 *Financial Accounting Foundation (FAF) Post-Implementation Review (PIR) Report on FASB Statement No. 141 (Revised 2007), Business Combinations*, acknowledged practice issues concerning the valuation of certain intangibles, as well as other issues. TIC also understands that the FAF will soon begin its PIR of FASB Statement No. 157, *Fair Value Measurement*. TIC therefore believes a separate project would be the ideal process for addressing concerns surrounding the interaction of the two standards.

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?*

Most TIC members support the proposed measurement limitation, since it would reduce the level of subjectivity in the fair value measurement of the asset by limiting the market participant assumptions about the contract to the remaining noncancelable term (paragraph BC24).

However, the minority view disagreed with limiting recognition and measurement to the noncancelable term of the contract. They believe that factoring in market participant expectations about renewals makes sense for certain identifiable intangibles, such as

leases that have a favorable lease term or other contracts where renewal is perfunctory (e.g., radio station licenses),

TIC therefore recommends that the Board and the PCC consider offering some optionality for such identifiable intangibles and permit measurement over a longer term than the noncancelable period, if such measurements would be meaningful to certain financial statement users.

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?*

Please see TIC's response to Question 5 above.

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.*

No, if the intent is to reduce cost and complexity, then the nature of identifiable intangibles that are not recognized separately should not be a disclosure requirement. One of the reasons that they are not being recognized separately is that most financial statement users do not find them relevant for decision-making purposes. In addition, some private companies may not have the ability to identify all intangibles in a business combination. TIC believes disclosure of the reason(s) for the acquisition, which is already required by ASC paragraph 805-10-50-2(d), is sufficient. Therefore, TIC does not support the additional proposed disclosures in paragraph 805-20-50-6.

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.*

TIC agrees that no additional disclosures are required for those identifiable intangible assets that are recognized and measured separately in the balance sheet.

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

TIC agrees that the final standards should be applied on a prospective basis. However, most TIC members also believe that a modified retrospective application should be permitted as an option. If a business combination has occurred within the periods being presented, preparers may want to apply the simplified accounting provided by the standard. A modified retrospective option could be a desirable alternative for those

entities that prefer consistency in the accounting for identified intangible assets when comparative financial statements are presented.

TIC discussed an example of a business combination that has an acquisition date of December 31, 2013 (assuming a calendar year-end acquirer). Assume the entity is presenting comparative financial statements for calendar years 2013 and 2014. If the final standard has an effective date of years beginning after 12/15/13 (i.e., calendar-year 2014) and there is no option for some retrospective application, the entity would miss the opportunity to apply the accounting alternative provided in the standard for the earliest year presented (i.e., 2013 in this example).

However, other entities (for various reasons) may not wish to apply retrospective accounting. Those entities should have the option of prospective application.

In TIC's view, such options would not affect the comparability of the financial statements of private entities that adopt the accounting alternative retrospectively v. those that apply it prospectively, since most financial statement users are already disregarding intangible assets and goodwill.

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

The alternative accounting method should be effective as an option as soon as possible after issuance. If not made effective immediately upon issuance, then early adoption should be permitted.

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

TIC believes the proposal has the potential to reduce the costs for preparers and reduce the time needed to perform audit procedures on acquired intangible assets. Although it may not eliminate the need to hire outside valuation specialists, the final standard should reduce the number of complex Level 3 assets that would need to be measured. In turn, this would reduce the amount of audit testing and documentation of significant assumptions and inputs used in fair value measurements of those assets.

There would be some initial effort involved in training staff, changing audit programs/manuals, and updating internal accounting guidance.

Question 13 is for users and has been omitted from TIC's response.

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.)

Yes, if an entity elects the accounting alternative in this proposed ASU, then the entity should also apply the accounting alternative in the proposed ASU on the subsequent measurement of goodwill. The goodwill account balance at the acquisition date would be potentially much greater under this proposal than if the accounting alternative were not selected. The proposed amortization of goodwill in the other proposed ASU allows for sufficient reduction of the balance over time without the uncertainty and complexity involved in assessing annual impairment. In addition, TIC believes most entities will want to follow the accounting alternative for goodwill amortization.

However, if the entity elects the accounting alternative in ASC Topic 350 (Intangibles—Goodwill and Other) for goodwill, there should not be a requirement to also apply the accounting alternative in this proposed ASU. TIC believes the decision to separately recognize identifiable intangible assets v. include them in goodwill could be made independently of the goodwill amortization decision without any negative impact on financial statement users.

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.

TIC has decided not to comment on the definition of a public business entity as part of its response to this proposal. TIC plans to comment separately on the Proposed ASU, *Definition of a Public Business Entity—An Amendment to the Master Glossary*, which was issued on August 7, 2013.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Karen Kerber".

Karen Kerber, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees