CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

PCC-13-01B Comment Letter No. 44

August 23, 2013

Technical Director, File Reference No. PCC-13-01B Financial Accounting Standards Board 401 Merrit 7 PO Box 5116 Norwalk, Connecticut 06856-5116

Sent via e-mail to director@fasb.org

Sensiba San Filippo LLP is pleased to have the opportunity to respond to the FASB's Exposure Draft on the Proposed Accounting Standards Update—Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill which was issued on July 1, 2013.

We understand the unique needs of users of private company financial statements and would like to commend the FASB for taking on this project. Opportunities to reduce the cost and complexity of preparing private company financial statements in accordance with U.S. GAAP are of great interest to our clients.

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

Response: Sensiba San Filippo (<u>www.ssfllp.com</u>) is a public accounting firm serving middle-market companies in the San Francisco Bay Area, the majority of which are privately held corporations. We have 14 partners and approximately 90 employees. We perform a full range of assurance and tax services as well as periodic bookkeeping services subject to the compilation standards.

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?

Response: We believe that proposed scope is appropriate.

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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?

Response: We believe that the proposed scope is appropriate.

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

Response: Yes, we believe the amendments would reduce the overall cost and complexity as compared with existing guidance. Amortization is much simpler than impairment and saves the cost of an independent valuation or the complexity of the companies trying to perform the valuation themselves. However, does trying to choose the applicable life further complicate the issue? The FASB should consider a "default" life of 15 years when no particular asset is "primary" so as to coincide with the tax life of goodwill.

Question 5: Do you agree that the accounting alternative for goodwill would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide relevant information to users?

Response: We agree that the alternative would provide more relevant and decision useful information to users. Currently, many users do not consider goodwill on the financial statements as an asset when calculating financial covenants or assets worthy of collateralization. With the new alternative method and amortization, the risk of overstated goodwill is reduced which would bring added benefits to users.

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?

Response: We agree with the overall decision to amortize goodwill as the rate of change in organizations due to technological improvements, employee turnover, and supply chain issues suggests that goodwill does not last forever. While we also think that a "not to exceed ten years" life is sufficient, we would like the FASB to consider a period of fifteen years so as to align with the current tax rules regarding amortization of goodwill. This would eliminate a potential book and tax difference, simplifying the process further and making it even easier on businesses.

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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?

Response: We believe that goodwill accounted for under this method should be allowed to be tested at either the entity-wide level or the reporting unit level, provided distinct reporting segments exist. While entity-wide level testing would increase simplicity and reduce costs, it could also adversely affect companies that might have most of their goodwill attached only to a single reporting unit. For these companies, testing at the entity-wide level could cause them to have to impair goodwill that would otherwise not be had testing been done at the reporting unit level. We believe that both methods should remain an option so that businesses could choose what they think would be most beneficial. We also believe that once a company chooses to test impairment at either the entity or reporting unit level, it should be compelled to continue with that method to ensure comparability from year to year.

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 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?

Response: Yes, we agree that testing impairment only upon the occurrence of a trigger event would be appropriate. As goodwill would be amortized under this alternative, yearly impairment testing is rendered unnecessary because of the reduced risk in overstated goodwill. Further, if companies are still required to do annual impairment testing, this would not reduce cost or complexity.

Question 9: 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?

Response: We believe that the assessment of triggering events should be performed consistent with the current method of assessment for goodwill impairment.

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?

Response: Yes, we agree that entities should have the option of bypassing the qualitative assessment if it is clear that the triggering event will likely cause impairment. Simplifying the assessment and related calculation yields more timely conclusions thus reducing costs.

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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 roll-forward schedule of the aggregate goodwill amount between periods? If not, what disclosures should be required or not required, and please explain why.

Response: We agree with the proposed disclosure requirements. We also agree with the roll-forward schedule because it would give users more relevant information regarding the amortization and impairment charges related to goodwill.

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?

Response: We believe that that the update should be applied on a prospective basis for all current and future goodwill. Retrospective amortization is unnecessary as all current good will has already been tested for impairment and reduced if needed when fair value exceeded cost.

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?

Response: For an entity that adopts this method, we believe all existing goodwill should be amortized over a period not to exceed 15 years (see # 4 above).

Question 14: When should the alternative accounting method be effective? Should early application be permitted?

Response: SSF recommends that the Accounting Standard Update would allow at least a period of one year between the date of issuance and the effective date of the standard. This would provide both private company preparers and financial statement users' adequate time to understand the implications of these changes given that there will not be access to public company financial statements for reference examples of disclosures and adoption presentation. Early application should be permitted due to the simplicity of implementation and immediate cost saving potential.

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

Response: We believe that there will be little additional effort required of auditors as a result of the proposed change beyond closer inspection of trigger events.

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Question 16: For users, would the proposed amendments result in less relevant information in your analyses of private companies?

Response: N/A

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.)

Response: Yes, we think that both proposals should be implemented simultaneously due to their interrelationship.

Question 18: Do you agree with the Board's tentative decisions reached about the definition of a public business entity? If not, please explain why.

Response: We will refrain from commenting on the Board's definition of a public business entity as we do not serve public companies.

Thank you for your consideration of our comments. You may contact Karen Burns at 925-271-8700 or kburns@ssfllp.com for any clarification or questions you may have regarding the above comments.

Sensiba San Filippo LLP

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