Private Company Council

PCC Issue No. 13-01A

Title: Accounting for Identifiable Intangible Assets in a Business Combination

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Background and Purpose

1. At its January 28, 2014 meeting, the PCC was provided with additional research, analysis, and feedback from outreach on the accounting for identifiable intangible assets in a business combination (Issue Summary No. 1, Supplement No. 3). At that meeting, the PCC narrowed the alternatives and directed the FASB staff to analyze the best way to describe (a) alternatives for recognizing and measuring separately from goodwill only those intangible assets in a business combination that are capable of being sold or licensed independently from other assets of a business and (b) alternatives focusing solely on types of customer-related intangibles that may not warrant recognition and measurement separate from goodwill.

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* **The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the PCC. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the PCC makes such a determination, exposes it for public comment, and it is endorsed by the Board.**

2. At the March 26, 2014 Board meeting, the FASB staff provided the Board with an update of the alternatives currently being considered by the PCC and the staff's recommendation for all entities, including private companies, public business entities (PBEs), and not-for-profit entities (NFPs).

3. The purpose of this Issue Supplement is to provide the PCC with an update of the alternatives currently being considered.

4. This Issue Supplement is organized as follows:

   a. Issue 1: How intangible assets acquired in a business combination should be recognized
   b. Issue 2: Disclosure
   c. Issue 3: Transition
   d. Issue 4: Linkage with Update 2014-02
   e. Issue 5: Re-Exposure
   f. Issue 6: Effective Date and Early Application

Accounting Issues and Alternatives

Issue 1: How intangible assets acquired in a business combination should be recognized

5. At the January 2014 PCC meeting, the PCC considered a view under which a private company would not recognize any intangible assets separately from goodwill (that is, View A) and a view not to change current U.S GAAP for private companies (that is, View C). However, the PCC also directed the FASB staff to further research variations of a modified version of View B that was presented at the January 2014 PCC meeting and is as follows:

> *Intangible assets would only be separately recognized if they are capable of being sold or licensed independently from other assets of a business.*

6. The following is a summary of four new variations of View B developed by the FASB staff:

View B1: *Principle with Rebuttable Presumptions—Intangible assets would only be separately recognized if they are capable of being sold or licensed independently from other assets of a business. This alternative includes rebuttable presumption language on which assets would typically be expected to be recognized and which would not.*

View B2: *Change Limited to Non-competition Agreements (NCA) and Customer Related Intangibles (CRI)—NCAs would not be recognized and CRIs would only be recognized if they are capable of being sold or licensed independently from other assets of a business. This alternative includes a rebuttable presumption that CRIs generally would not meet the criteria for recognition.*

View B3: *Principle and Rebuttable Presumption Limited to CRIs—Similar to View B2, but limited to CRIs.*

View B4: *Narrower Definition of Contractual CRIs—This alternative consists of narrowing the guidance on when a CRI meets the contractual/legal criterion for recognition provided in paragraph 805-20-55-25.*

7. The staff believes that Views B1 and B2 would result in substantially the same outcome as View B, but reflect different ways to describe View B. Views B3 and B4 are variations of View B that would result in a different outcome in comparison to Views B, B1, and B2 about which intangible assets would or would not be recognized. Under Views B1, B2, B3, and B4, the PCC could decide to require qualitative and/or quantitative disclosure about the nature of the intangible assets acquired that are not recognized separately from goodwill.

8. Appendix A to this supplement is a summary of common types of intangible assets and whether they likely would or would not be recognized under the variations of View B.

View B1: Principle with Rebuttable Presumptions

9. Under View B1, the language would be similar to View B. However, several statements would be made to clarify what assets would generally be expected to meet the criteria for recognition.

10. The following is an example of language that could be used to describe View B1.

> *Intangible assets are recognized only if they are capable of being sold or licensed independently from the other assets of a business.*
>
> *There is a rebuttable presumption that non-competition agreements (NCA) and customer-related intangible assets (CRI) would not meet the criteria for recognition. CRIs that may overcome the rebuttable presumption include mortgage servicing rights, commodity supply contracts, and core deposits.*
>
> *There is a rebuttable presumption that other intangible assets that would otherwise be recognized under U.S. GAAP would continue to meet the criteria for recognition. Those other intangible assets include technology, brands, trade names, software, and licenses.*

11. Proponents of View B1 believe that this alternative aligns with user needs. While users in the staff's outreach had mixed views on which intangibles were the most important to recognize in a business combination, they generally agreed that they were most interested in the values of intangibles that meet the criteria for recognition in View B1 (assets that could be sold or licensed independently from the other assets of a business). Users were open to qualitative disclosures about intangible assets that do not meet the criteria for recognition in View B1.

12. Proponents of View B1 believe that any change to intangible asset recognition should be based on a principle rather than what may be perceived as an arbitrary list of intangible assets that should or should not be recognized. Proponents believe that the alternative could be applied to a wide range of intangible assets that exist currently and in the future. They believe guidance that includes a list of specific intangible assets that should or should not be separately recognized likely would not be complete despite the PCC's best efforts and would need to be updated periodically as the business environment changes.

13. Proponents also note that View B1 provides the most potential for cost savings because it would allow preparers to not recognize any intangibles that could not be sold or licensed separately from the other assets of a business while the other alternatives would be explicitly limited to NCAs and/or CRIs.

14. Some opponents believe that even with the rebuttable presumption language, View B1 would require analysis to determine which intangible assets are capable of being sold or licensed independently from the other assets of a business and such analysis would include intangible assets beyond NCAs and CRIs. Some entities may be unclear about which intangible assets are capable of being sold or licensed because they have no intention to sell or license the intangible assets. In certain cases, the assessment may require interpretation of the law. Other entities may be unclear about whether an intangible asset that is capable of being sold or licensed can be sold or licensed without any other assets of the business. These opponents believe that the cost savings associated with non-recognition of certain assets would be offset partially by the different cost and complexity of View B1.

15. Other opponents of View B1 believe that the criteria for recognition are too narrow. They point to CRIs such as in-place contracts with customers (for example, a three-year service agreement), that often have significant value but cannot be sold or licensed (for example, a contract with a customer that specifies that the vendor cannot transfer the contract to a third party) and/or cannot be sold or licensed without other assets of the business (for example, propriety technology used to perform the service). Those opponents believe that contractual intangibles should be recognized regardless of whether they meet the criteria in View B1, and tend to support either current U.S. GAAP or View B4.

View B2: Limited to NCAs and CRIs with Principle and Rebuttable Presumptions Applied only to CRIs

16. Because View B generally would lead to NCAs and CRIs not being recognized and no change to the recognition of other intangible assets under current U.S. GAAP, some stakeholders support explicitly limiting the alternative to NCAs and CRIs to avoid any costs and complexity associated with other intangible assets. The staff believes that in most cases View B2 would result in the same outcome as View B1. However, View B2 is explicit about which intangible assets would no longer be separately recognized.

17. The following is an example of language that could be used to describe View B2.

> *Do not recognize the following intangible assets:*
>
> - *Non-competition agreements (NCA); and*
> - *Customer-related intangible assets (CRI) that are not capable of being sold or licensed independently from the other assets of a business.*
>
> *There is a rebuttable presumption that CRIs <u>would not</u> meet the criteria for recognition. CRIs that may overcome the rebuttable presumption include mortgage servicing rights, commodity supply contracts, and core deposits.*

18. Proponents of View B2 believe that it would avoid unnecessary costs and complexity encountered when determining and documenting whether or not intangible assets other than NCAs and CRIs (for example, technology, brands, trade names, licenses, and software) can be sold or licensed separately from a business. By limiting the analysis solely to CRIs, preparers may realize more cost savings than View B1 with less potential for incremental or unintended costs associated with supporting assessments of which assets meet the criteria for recognition.

19. Some opponents of View B2 believe that while the primary effect of this PCC alternative may be on NCAs and CRIs, it should not necessarily be limited to those intangible assets. These opponents believe that any intangible that is incapable of being sold or licensed independently from the other assets of a business should not be recognized. These opponents are generally proponents of View B1. They believe that it is impossible to consider every situation and that there may be circumstances in which intangibles, such as technologies and licenses, may not meet the criteria for recognition under View B1 and, therefore, should not be recognized.

20. Similar to some opponents of View B1, some opponents of View B2 believe that the criteria for recognition is too narrow and that contractual CRIs should be recognized regardless of their capability of being sold or licensed separately from the other assets of a business.

View B3: Principle with Rebuttable Presumptions Limited to CRIs

21. View B3 is similar to Views B1 and B2. However, under View B3, the alternative would be applied only to CRIs. NCAs would continue to be recognized.

22. The following is an example of language that could be used to describe View B3.

> *Only recognize customer-related intangible assets (CRI) that are capable of being sold or licensed independently from the other assets of a business.*
>
> *There is a rebuttable presumption that CRIs <u>would not</u> meet the criteria for recognition. CRIs that may overcome the rebuttable presumption include mortgage servicing rights, commodity supply contracts, and core deposits.*

23. Proponents of View B3 believe that the alternative should focus only on CRIs because this seems to be an area where private company preparers have the most difficulty. They do not believe that there is a need to make changes to other intangible assets and believe that making a change only to CRIs would involve fewer costs associated with adoption and implementation. Some proponents of View B3 believe that NCAs are a critical element to some business combinations (that is, the transaction would not be consummated without NCAs); therefore, the recognition of NCAs is relevant to users.

24. Some opponents of View B3 are proponents of View B1 or View B2. Some of those proponents believe that if new criteria are developed for recognizing intangible assets, those criteria should be ones that can be applied to all intangibles consistently. They believe that if users are primarily interested in intangibles that can be sold or licensed independently from the other assets of a business, it is unnecessary and costly to continue to recognize intangible assets that do not meet that criterion.

25. Similar to some opponents of Views B1 and B2, some opponents of View B3 believe that the criteria for recognition is too narrow and that contractual CRIs should be recognized regardless of their capability of being sold or licensed separately from the other assets of a business.

View B4: Narrower Definition of Contractual CRIs

26. Under current U.S. GAAP, an intangible asset is recognized to the extent it meets either of the following criteria in paragraph 805-20-25-10:

a. It is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so (the "separable criterion").

b. It arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations (the "contractual/legal criterion").

27. Paragraph 805-20-55-25, which is included below, explains when a customer relationship meets the contractual/legal criterion.

> A customer relationship exists between an entity and its customer if the entity has information about the customer and has regular contact with the customer and the customer has the ability to make direct contact with the entity. Customer relationships meet the contractual-legal criterion if an entity has a practice of establishing contracts with its customers, <u>regardless of whether a contract exists at the acquisition date</u>. Customer relationships may also arise through means other than contracts, such as through regular contact by sales or service representatives. As noted in paragraph 805-20-55-22, an order or a production backlog arises from contracts such as purchase or sales orders and therefore is considered a contractual right. Consequently, if an entity has relationships with its customers through these types of contracts, the customer relationships also arise from contractual rights and therefore meet the contractual-legal criterion.

28. This current guidance is broad and considers CRIs to meet the contractual-legal criterion even if there is no contract in place at the transaction date as long as there had been a contract in the past (including past purchase orders).

29. Under View B4, the application of the contractual/legal criterion for recognizing a CRI would be narrowed to exclude the on-going customer relationships associated with purchase order-based or at-will customers. There would be no change to the accounting for intangible assets other than CRIs. In accordance with current U.S. GAAP, the measurement of CRIs that

are recognized under View B4 would continue to consider potential renewals because renewals reflect market participant expectations of future cash flows. While purchase orders may be recurring, they are not typically renewed. As such, under View B4, only the fair value of existing purchase orders would be recognized, while the on-going CRI associated with future potential purchase orders would not be recognized.

30. Under View B4, a contract with a customer at the acquisition date would continue to be recognized. For example, customer backlog from purchase or sales orders would be recognized even if the contracts are cancellable. Other CRIs under existing U.S. GAAP would only be recognized if they meet the "separable" criterion for asset recognition because they would not meet the contractual/legal criterion under View B4. For example, core deposits would likely not meet the contractual-legal criterion under View B4, but they typically would meet the separable criterion and would continue to be recognized. In the healthcare industry, for example, a contract for long-term treatment (for example, a nursing home) would be recognized under View B4, but a patient relationship without a contract would not be recognized (for example, a patient who regularly visits a general practitioner for physicals and occasional health problems) because such patient relationships are not contractual and generally cannot be sold or licensed due to privacy laws.

31. The staff believes that the objective of View B4 could be achieved through replacing paragraph 805-20-55-25 with the following language:

> *Customer relationships meet the contractual-legal criterion only if the entity has a contract with the customer at the date of the business combination. As noted in paragraph 805-20-55-22, an order or a production backlog arises from contracts such as purchase or sales orders and, therefore, is considered a contractual right. However, on-going customer relationships that arise from purchase or sales orders are not considered to meet the contractual-legal criterion.*

32. Proponents of View B4 believe that only contractual CRIs should be recognized regardless of whether they can be independently sold or licensed. They believe that non-contractual or at-will customer relationships should be subsumed into goodwill because they do not give the entity

a present right and because the measurement of such CRIs can be difficult to estimate in comparison to contractual CRIs.

33. Opponents of View B4 believe that the approach does not represent a significant change to current U.S. GAAP, and, therefore, it would not provide significant enough cost relief to warrant a change in U.S. GAAP. Those opponents observe that cost reduction in the near term under View B4 may be offset partially by system-wide costs associated with a change in U.S. GAAP.

34. Some opponents believe that View B4 would result in not recognizing some intangible assets that should be recognized because they can be valuable. For example, a home security company might have a backlog for system installations that typically result in service contracts. Under View B4, the backlog would be recognized, but the service contracts expected to follow the installation may not meet the recognition criteria. Opponents argue that the acquirer purchased future cash flows in the service contacts and an asset should be recognized for those cash flows. Proponents, however, would argue that because the service contracts are not in place at the acquisition date, the entity does not have a present right to the cash flows.

35. Some opponents of View B4 believe that it draws an artificial distinction between CRIs that are subject to a contract and those that are not subject to a contract at the acquisition date. They observe that some contracts are cancellable and they question why cancellable contracts would be recognized while relationships without contracts on that date would not be recognized. Similarly, they question why the measurement of CRIs that would be recognized under View B4 would consider renewals. Finally, they are concerned that in certain circumstances, a preparer may incur costs to determine which CRIs are and which are not subject to a contract at the acquisition date and they observe that in some cases determining whether a contract exists may involve input from attorneys (for example, not all contracts are required to be in writing).

Private Company Feedback

36. In general, private company preparers were concerned with the cost and complexity of intangible asset recognition and measurement. Users of private company financial statements had mixed views on the decision-usefulness of fair value information on intangible assets. While

some users of private company financial statements found little usefulness in fair value information on intangible assets, others indicated they consider the fair values of acquired intangible assets to be very important, especially in business combinations in which the primary rationale for the acquisition was to acquire intangible assets. Those users of private company financial statements generally indicated they would have access to management to obtain additional information if certain intangibles are no longer recognized. Further detail about feedback received from private company stakeholders was included in Issue Summary No. 1, Supplement No. 3.

PCC Question #1: Which View does the PCC support?

Issue 2: Disclosure

37. The proposed Update, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination,* issued on July 1, 2013, which resulted from this Issue, required an entity to disclose qualitatively the nature of identifiable intangible assets acquired but not recognized as a result of applying the accounting alternative. For intangibles that are recognized after applying the accounting alternative, a private company would follow the disclosure requirements in the relevant Codification Topics (for example, Topic 805; Topic 350, Intangibles—Goodwill and Other; and Topic 820).

Feedback and Analysis

38. The majority of respondents to the proposed Update agreed with the required additional disclosure to provide qualitative information about the nature of identifiable intangible assets acquired but not recognized as a result of applying the proposed alternative. Those respondents indicated that the disclosures would provide financial statement users with sufficient information about non-separately recognized intangible assets that would work as a signal to alert financial statement users to the existence of intangible assets that are subsumed into goodwill. Most users of private company financial statements could obtain further information from management about those intangible assets if necessary through their ability to access management.

39. A few respondents questioned the relevance of the proposed additional disclosure. If some intangible assets do not warrant separate recognition on the face of the financial statements, there should not be a need for disclosures about those assets. Other respondents expressed concern that the provision of such disclosures would add complexity and require private companies to likely involve third-party valuation experts to assist them with the identification of the additional intangible assets. This may defeat one of the goals of a proposed alternative, which is to reduce costs and complexity for private companies. A few respondents requested that the PCC clarify the periods in which the additional disclosures should be provided.

40. Nearly all respondents agreed that the proposed alternative should not require any other additional recurring disclosures for identifiable intangible assets that are recognized separately as a result of applying the proposed alternative.

41. Some preparers expressed concern that any cost savings associated with not separately recognizing certain intangibles would be offset by the costs of providing additional qualitative disclosures. Depending on how extensive the required disclosures are, some preparers noted they might prefer to continue recognizing the intangible assets at fair value rather than expanding qualitative disclosures.

42. The staff identified the following alternatives for the PCC's consideration about disclosure if any of the alternatives (Views B1 through B4) are selected:

View 1: *No additional disclosure*

View 2: *Qualitative disclose about the nature of intangible assets that are not recognized separately from goodwill as a result of applying one of the views in this memorandum*

View 1

43. Proponents of View 1 believe that no additional disclosure is necessary because Views B1 through B4 would not result in a significant change to U.S. GAAP and the current disclosure

requirements in Topic 805 would result in sufficient disclosures about intangible assets that do not require separate recognition. Paragraph 805-30-50-1 states:

> Paragraph 805-10-50-1 identifies one of the objectives of disclosures about a business combination. To meet that objective, the acquirer shall disclose all of the following information for each business combination that occurs during the reporting period:
>
> a. A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition, or other factors. [Emphasis added.]

44. Proponents believe that additional qualitative disclosure of intangible assets that would no longer be recognized would result in boilerplate information that is unlikely to provide decision-useful information to users. Proponents also believe that if disclosure of those intangible assets is important to users, then the value of those intangible assets should be recognized in the financial statements.

45. Opponents of View 1 believe that existing disclosures do not provide sufficient information to users about intangible assets that are no longer recognized. The feedback indicated that some users of financial statements do find information about CRIs and NCAs to be useful.

View 2

46. Under View 2, an entity would be required to disclose qualitatively the nature of identifiable intangible assets acquired but not recognized under View B1 through B4. To enhance those disclosures, the Board should consider whether to prescribe specific disclosures for entities to include in their financial statements. Examples of the types of disclosures an entity may consider include:

a. A description and the nature of the types of intangible assets that are not separately recognized
b. Attrition rate
c. Length of non-compete agreements

d. Contractual or non-contractual CRIs

e. Contract terms

f. Information on customer concentration/diversification

47. This list is not intended to be all-inclusive. The examples are intended only to illustrate the objective of the qualitative disclosures.

48. Proponents of View 2 believe that disclosure of qualitative information about the nature of identifiable intangible assets acquired but not recognized would provide financial statement users with sufficient information about non-separately recognized intangible assets that would serve as a signal to alert financial statement users to the existence of intangible assets that are subsumed into goodwill. Proponents believe that disclosure of qualitative information by private companies could help some users to identify items that could require further discussion with management without significant costs to preparers.

49. Opponents of View 2 question the relevance of additional disclosure. If some intangible assets do not warrant separate recognition on the face of the financial statements, there should not be a need for incremental disclosures about those assets. Opponents believe that such disclosures would add complexity and costs (particularly disclosures that might require estimates, such as attrition rate) that may defeat one of the goals of the project, which is to reduce costs and complexity.

PCC Question #2: Does the PCC want to require that an entity that elects to apply the proposed alternative must disclose qualitatively the nature of identifiable intangible assets that are not recognized separately from goodwill as a result of applying the proposed alternative, and does the PCC not want to prescribe specific qualitative disclosures but, rather, provide some examples in the final Update?

Issue 3: Transition

50. The proposed Update indicates that the alternative would be effective prospectively for all business combinations entered into during fiscal years, and interim periods within those years, beginning on or after the effective date.

Feedback and Analysis

51. Nearly all respondents agreed that the proposed alternative should be applied on a prospective basis. Many respondents did not agree with the option of retrospective application due to cost and complexity considerations. However, a few respondents acknowledged that a retrospective application should be permitted on an elective basis for preparers and users who prefer consistent presentation of intangible assets in comparative financial statements. In addition, those respondents stated that retrospective application may not be practical unless an entity also adopts Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350), Accounting for Goodwill*.

52. The PCC should decide whether to reaffirm its tentative decision that an entity would apply the proposed alternative prospectively for all business combinations entered into after the effective date. A retrospective approach would require a private entity to restate all past intangibles and goodwill balances, along with the related amortization and impairment charges. That approach may be impracticable because of the retrospective judgments that would be necessary for such restatements (for example, restating goodwill impairment based on the changes to accounting for identifiable intangibles that would change the previously recognized goodwill amounts). A prospective approach in which the differential accounting treatment would only apply to new business combinations after the effective date, could be more appropriate. Some stakeholders may prefer the option of retrospective application in order to achieve comparability. However, the proposed alternative is intended to reduce costs and complexity while improving the relevance of information to users. Retrospective application would most likely result in additional effort and cost to be incurred by preparers.

PCC Question #3: Does the PCC wish to affirm its decision that if elected, the alternative should be applied prospectively for all business combinations entered into after the effective date with no option to apply retrospective application?

Method of prospective recognition

53. To help identify the method of prospective recognition for intangible assets that exist at the beginning of the period of adoption, the FASB staff has identified the following alternatives to account for separately-recognized intangible assets existing as of the beginning of the period of adoption:

View A: Continue to recognize and measure intangible assets that exist as of the beginning of the period of adoption in accordance with existing U.S. GAAP in Topic 350.

View B: Under the proposed alternative, any intangible asset that exists as of the beginning of the period of adoption would no longer be separately recognized and would be subsumed into goodwill.

54. The primary differences between View A and View B relates to subsequent measurement. Under View A, any existing intangible asset would continue to be amortized (except for indefinite lived intangible assets) and subject to the impairment test under Topic 350. Under View B, pending the PCC's decision to link Issue 13-01A with Update 2014-02, an entity would either:

a. Subsequently measure and account for goodwill by amortizing goodwill on a straight-line basis over a 10-year period, or less than 10 years if the entity demonstrates that another useful life is more appropriate. The entity would also be subject to a simplified impairment test.

b. If an entity elects not to apply Update 2014-02, goodwill would continue to be recognized in accordance with existing U.S. GAAP and would be subject to an annual impairment test and would not be amortized (pending the Board's decisions in its project on accounting for goodwill for PBEs and NFPs).

55. While View B would present intangible assets consistently on a comparative basis, View A would result in less cost for a private company and would also provide more relevant

information for users. Under View A, preparers would not need to evaluate the potential effect of a change in the subsequent accounting for goodwill and the time and effort to change the accounting. In addition, the current amortization period for those intangible assets could be more appropriate than amortizing over a 10-year period (or the period goodwill is amortized over) and could more appropriately reflect the economics of the transaction.

PCC Question #4: Which View does the PCC prefer?

Issue 4: Linkage with Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350), Accounting for Goodwill*

56. At its October 2013 meeting, the PCC decided to move forward with the alternative for the subsequent measurement of goodwill under Issue 13-01B (which resulted in Update 2014-02 being issued in January 2014) without linking its adoption to the outcome of the issue addressed in this Supplement on the recognition of intangible assets (that is, Issue 13-01A).

57. If the PCC decides to provide private companies with an alternative for the recognition of intangible assets in a business combination, the PCC will need to decide whether Issue 13-01A should be linked to adoption of Update 2014-02. The staff has identified the following alternatives for consideration:

View A: Election of Issue 13-01A requires the adoption of Update 2014-02.

58. Proponents of View A believe that linking Issue 13-01A to Update 2014-02 provides a mechanism for assets that are finite-lived to be amortized. Further, proponents of View A believe that because Issue 13-01A would likely result in a higher goodwill balance in comparison to current U.S. GAAP, entities would be exposed to a higher risk of goodwill impairment. Therefore, by linking the adoption of Issue 13-01A to Update 2014-02, a private company would reduce its risk for goodwill impairment by amortizing goodwill (which would include intangible assets that are not recognized).

View B: Election of Issue 13-01A does not require the adoption of Update 2014-02.

59. Proponents of View B believe that both Issue 13-01A and Update 2014-02 independently would result in a reduction in cost and complexity for private companies while resulting in decision-useful information for users of private company financial statements and, therefore, believe that the Issues should not be linked. Proponents also believe that View B could limit the number of differences within U.S. GAAP between private companies and PBEs because an entity would not be required to apply both alternatives.

PCC Question #5: Which Alternative does the PCC support?

Issue 5: Whether this Issue should be reexposed.

60. The PCC should consider whether to reexpose this Issue based on the changes to the proposed alternative as a result of the decisions reached on the questions above. According to the staff analysis, reexposure is generally required when there has been a substantive change to the scope or to the primary recognition, measurement, or disclosure principles. The intention of a reexposure is to allow constituents to have an opportunity to raise issues or concerns not previously considered by the PCC. The need to issue a revised exposure draft is a matter of judgment, taking into consideration various factors, including:

a. The extent to which decisions reached during redeliberations of an exposure draft result in a substantive change to the guidance proposed in the exposure draft on which respondents commented (individually and/or in the aggregate).
b. Whether stakeholders have had sufficient opportunity to fully consider the implications of the change and communicate their views on the change (for example, through comment letters and constituent outreach activities during redeliberations).
c. Whether the decision making of the Board or the PCC would benefit from additional input on the change, considering the extent to which such input would provide new information not previously considered by the Board or the PCC prior to redeliberations.

d. The time that has lapsed since issuance of the exposure draft and the effect of economic, regulatory, or other changes during the intervening period on the arrangements that are the subject of the exposure draft.

61. The proposed Update would have provided a private company with an alternative to recognize only those intangible assets arising from contractual rights with noncancellable contractual terms or those arising from other legal rights. As a result, an intangible asset would not be recognized separately from goodwill even if it were transferrable or separable. For instance, a private company under the proposed Update would not recognize the fair value of customer-related intangible assets that are noncontractual, such as customer lists or those arising from customer relationships that are expected to extend beyond the noncancelable contractual terms.

62. Overall, the FASB staff believes that the views presented in this Supplement would generally result in a private company recognizing more intangible assets separately from goodwill than it would under the alternative in the proposed Update.

63. After considering those factors, if the PCC decides to move forward with any of the Views indicated in Issue 1, the staff believes that exposure of a revised exposure draft is warranted.

PCC Question #6: Does the PCC believe that this Issue should be reexposed?

Issue 6: Effective date and early application (only applicable if the Issue is not reexposed)

64. The proposed Update did not indicate an effective date for the proposed alternative but does indicate that early application would be permitted.

Feedback and Analysis

65. The majority of respondents indicated that the proposed alternative should become effective within a short period of time after final issuance. Some respondents indicated that the effective date should be one year after issuance to provide private companies with sufficient time to

prepare and understand the implications of the changes given that they will not have the benefit of learning from public companies. Nearly all respondents were supportive that early application should be permitted.

66. The PCC should decide whether private companies should be able to apply the alternative, if elected, to account for intangible assets in a business combination entered into in the first annual period beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. Early application should be permitted for any annual or interim period for which the entity's annual or interim financial statements have not yet been made available for issuance. If the proposed alternative is final before the end of 2014, private companies and their auditors would have more than two years from issuance before the issuance of a calendar year private company's financials to implement the new guidance, but also provide an opportunity for those that wish to be able to apply the guidance earlier. Making the guidance effective in 2016 (for calendar year companies) acknowledges the fact that private companies and their auditors often do not learn about new guidance until later in the year and that the final standard may be issued while their resources are focused on year-end close and other matters. For entities that prefer to elect to apply the proposed alternative before the effective date, a benefit is that they will have the option of early adoption.

PCC Question #7: Does the PCC believe that the proposed alternative should be effective for business combinations entered into in the first annual period beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016? If not, what effective date does the PCC suggest?

PCC Question #8: Does the PCC wish to affirm its decision that the proposed alternative should permit early adoption for any annual or interim period for which the entity's annual or interim financial statements have not yet been made available for issuance?

Appendix A – Recognized Intangibles by View B Alternative[1]

		Customer-related Intangibles						
Alternative	**Technology, Brands, Trade Names, Software, Licenses**	**Contracts that exist at acquisition date**	**Purchase Orders / Backlog that exist at acquisition date**	**On-going Customer relationships arising from POs/Backlog**	**Customer Lists[2] and Core Deposits[3]**	**Retail / Unidentifiable Customers**	**Non-Competition Agreements**	**Assembled Workforce**
Current GAAP	Yes	Yes	Yes	Yes	Yes	No	Yes	No
View B1	Yes (with possible exceptions)	No (with possible exceptions)	No (with possible exceptions)	No (with possible exceptions)	Yes	No	No (with possible exceptions)	No
View B2	Yes	No (with possible exceptions)	No (with possible exceptions)	No (with possible exceptions)	Yes	No	No	No
View B3	Yes	No (with possible exceptions)	No (with possible exceptions)	No (with possible exceptions)	Yes	No	Yes	No
View B4	Yes	Yes	Yes	No	Yes	No	Yes	No

[1] This appendix presents whether an intangible would be recognized under each view, assuming that an intangible exists in a given business combination. If the intangible is not present, it would not be recognized under any alternatives.

[2] Customer lists contain only information about customers (for example, names, contact information, demographic data, and so forth) and do not include the relationships a business may have with those customers.

[3] With few exceptions, customer lists and core deposits generally meet the "separable" criterion for intangible asset recognition and would therefore typically be recognized under all of the alternatives.