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August 29, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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File Reference No. PCC-13-01A

The Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on the Private Company Council's Proposed Accounting Standards Update (ASU), "Business Combinations – Accounting for Identifiable Intangible Assets in a Business Combination (Topic 805)."

Overall, we support the FASB's efforts to simplify the accounting where appropriate for private companies. Specific to this proposal, we concur that the this alternative accounting for business combinations will reduce costs and complexity by allowing private companies to recognize only those identifiable intangible assets arising from non-cancellable contractual terms or those arising from other legal rights. This proposal will result in entities recognizing fewer intangibles assets in business combinations. Any concerns about the value of those potential intangible rights that arise from rights that are separable but not contractual and subsumed into goodwill (a nonamortizing asset) are mitigated by the fact that FinREC believes that this proposal and the PCC's proposal for goodwill (requiring goodwill to be amortized amongst other proposals) should be adopted together. Similarly, we also see merit in extending this simplified accounting approach to not-for-profit entities.

We note public companies that apply the equity method under ASC 323, *Investments: Equity Method and Joint Ventures*, to private entities electing this alternative will be impacted in their recognition of equity in earnings or losses from such investees. We believe the Board should consider whether guidance should be provided for public companies that might be impacted by this and other private company alternatives in their application of the equity method to investees that make alternative elections as private companies.

We are providing our specific comments to the questions raised in the proposal. Representatives of FinREC would be pleased to discuss our comments with you at your convenience.

Sincerely,

Richard Paul
Chairman, FinREC

Mark Scoles
Taskforce Chairman

Questions for Respondents

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?

Response:

Because the proposal might impact the calculation of capital for regulatory purposes, the Board and PCC may want to seek specific input on whether regulated financial institutions should be excluded from the scope of this proposal.

We believe that investments accounted for by the equity method under ASC 323, *Investments: Equity Method and Joint Ventures*, in which the difference between the investors cost and the underlying net assets of the investee are accounted for as if the investee were a consolidated subsidiary should also be included in the scope of the alternative.

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?

Response:

We find merit in also extending this alternative treatment to not-for-profit entities. We do not believe that this proposal should be extended to public companies.

Question 4:

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

Response:

We believe that the proposed amendments will reduce cost and complexity for private companies.

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?

Response:

We agree that the market participant expectations about the potential renewal or cancellation of the contract should not be factored in the recognition and measurement of the intangible assets. Some FinREC members observe that some private companies are not concerned with the specific nature of the terms of these acquired contracts. If the measurement of contractual intangible assets is limited to the current term, the Board should consider whether additional guidance on measuring fair value of intangible assets for the impairment test is necessary.

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?

Response:

We agree and believe the listing in proposed 805-20-55-59 illustrates the concept.

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.

Response:

No, if these items are not recognized in the financial statements, and the intent is to reduce cost and complexity, then requiring these disclosures may not achieve this objective. However, FinREC recommends that the final Update include a specific disclosure requirement if an entity elects this alternative so that users can understand that some intangible assets are being subsumed into goodwill that would have been recognized separately had the proposal not been elected.

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.

Response:

We agree that no additional disclosure is warranted other than an explicit disclosure that this alternative is being elected.

Question 10:

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

Response:

The proposed alternative treatment should be applied on a prospective basis. However, we would also support retrospective application limited to the years presented on the financials at the time of adoption for comparative purposes.

Question 11:

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

Response:

Early adoption should be permitted.

Question 12:

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

Response:

We believe that there would be minimal effort needed for auditors to audit the proposed amendments. Preparers may need more time depending on the size and complexity of the private company.

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.)

Response:

We believe that different alternatives for private companies should be limited as appropriate and linking the two standards would facilitate limiting the differences. In addition, any concerns about the value of those potential intangible rights that arise from rights that are separable but not contractual and subsumed into goodwill (a nonamortizing asset) are mitigated by the fact that FinREC believes that this proposal and the PCC's proposal for goodwill (requiring goodwill to be amortized amongst other proposals) should be adopted together.. If an entity elects the accounting alternative for recognition, measurement and disclosure of identifiable intangible assets acquired in a business combination, the entity should also be required to apply the PCC's proposed accounting alternative for subsequent measurement of the goodwill.

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.

Response:

We will be providing our more detailed comments in response to your recent proposed ASU. Some of the issues we plan to address in that letter include:

- The FASB should elaborate on whether entities that file or furnish financial statements voluntarily or subject to the requirements of a debt agreement be explicitly included.
- Voluntary filers, as well as broker-dealers that are not issuers, should also be allowed to elect this accounting alternative.
- More guidance is needed on how to deal with potential implementation issues, such as when a nonpublic subsidiary of a public company applies the guidance.