



January 31, 2019

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB December 20, 2018 Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350)*, *Business Combinations (Topic 805)*, and *Not-for-Profit Entities (Topic 958)*: Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities [File Reference No. 2018-320]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests 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 has reviewed the Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350)*, *Business Combinations (Topic 805)*, and *Not-for-Profit Entities (Topic 958)*: Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the effort the FASB and the PCC have put forth to date in developing accounting alternatives for private companies. From TIC's experience, many private companies have adopted the accounting alternatives set forth in ASU 2014-02, *Intangibles—Goodwill and Other (Topic 350)*: Accounting for Goodwill and ASU 2014-18, *Business Combinations (Topic 805)*: Accounting for Identifiable Intangible Assets in a Business Combination. TIC believes these alternatives provide relief and simplification with regard to accounting for goodwill and accounting for certain intangible assets in a business combination. TIC also appreciates that the Board is considering extending these alternatives to all not-for-profit (NFP) entities, including

conduit debt obligors whose securities are traded, listed, or quoted on an exchange or an over-the-counter market (hereinafter referred to as conduit debt obligors).

TIC would ask the Board to consider whether there are additional alternatives and simplification that should be afforded to NFP entities that are conduit debt obligors as TIC believes many of these entities generally are more akin to private companies versus public business entities. TIC has expressed this concern in previous comment letters and is happy to discuss further if the Board would like specific ideas. For example, TIC continues to have concerns about the effective date for the revenue recognition standard and lease standard for NFP entities that are conduit debt obligors, as well as the additional required disclosures that TIC feels are not necessary in many cases and do not provide decision-useful information, especially in the case of smaller NFP entities.

SPECIFIC COMMENTS

Question 1: *Would the amendments in this proposed Update reduce overall costs and complexity compared with existing guidance? If not, please explain why.*

Yes. TIC believes the amendments in the ED would reduce overall costs and complexity compared with the existing guidance for NFP entities on goodwill and certain intangibles that can add additional time and cost burden with little benefit to the financial statement users. TIC has found that private company clients that have adopted these alternatives have seen time and cost savings without the loss of decision-useful information. TIC also believes that the current amortization period of 10 years for private companies has been well received.

Question 2: *What effect would the proposed amendments have as it relates to the decision usefulness of financial reporting? For example, would the proposed amendments decrease, increase, or not affect decision usefulness? Please explain.*

As noted in our response to question 1, TIC does not believe that the adoption of these alternatives would decrease decision-useful information. Similar to private companies, many users of the financial statements of NFP entities already disregard goodwill for purposes of key ratios and calculations so moving to an amortization model would likely not impact how a user of the financial statements would view that information. And with an amortization model, the goodwill would be amortized over 10 years or less at which point it would no longer need to be disregarded for purposes of ratios and financial statement analysis which might make it easier for financial statement users to analyze the balance sheet and statement of operations / changes in net assets.

Question 3: *Should the accounting alternatives in Topics 350 and 805 be extended to not-for-profit entities? If not, which aspects of the accounting alternatives do you disagree with and why?*

Yes. TIC believes that the accounting alternatives in Topics 350 and 805 should be extended to NFP entities. TIC cannot think of any aspects of the alternatives that should not apply to NFP

entities and TIC believes using an amortization period of 10 years or less is appropriate in the interest of issuing this ASU in a timely manner.

Question 4: *What reasons would prevent a not-for profit entity from adopting the alternatives on these Topics?*

TIC could foresee an NFP entity not adopting the alternatives if they had a planned transaction in which the NFP believed an unamortized goodwill amount on the balance sheet would reflect favorably for purposes of that transaction. For example, an NFP health care entity with a previously acquired for-profit physician practice that subsequently could be sold may choose not to amortize goodwill. Another case in which an NFP entity might not adopt the alternatives would be if they planned to be acquired by or merge with a public business entity or in some way were going to be considered a public business entity in the future due to a change in business model. As mentioned later in the “Additional Comment” section of this letter, TIC does have one additional concern that could cause an NFP entity not to elect the alternative. However, TIC believes the majority of NFP entities with goodwill likely would elect this alternative if available.

Question 5: *Do you agree with the optionality of the accounting alternatives? If not, why should the accounting alternatives be required?*

Yes. TIC believes that optionality is preferred as there could be situations where an entity might not want to elect an alternative as discussed in our response to question 4.

Question 6: *Accounting Standards Update No. 2016-03, Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance, removes the effective date of these accounting alternatives for private companies. This was done to accommodate those companies that initially chose not to elect those alternatives because of public company exit strategies and may wish to later adopt the alternatives without having to establish preferability if their strategies subsequently change. Do not-for-profit entities experience changes in circumstances that would similarly warrant an indefinite effective date? If so, please describe those circumstances in detail.*

Yes, TIC believes that the guidance in ASU 2016-03 should be extended to NFP entities as, although it would be uncommon, there could be situations where an NFP entity could change strategies and choose to elect the accounting alternatives under GAAP at a later date. For example, an NFP’s exit strategy may change from affiliating with a for-profit public business entity to affiliating with another NFP entity.

Question 7: *The Board recently added to its technical agenda another project on these Topics that, among other issues, will examine the amortization period for goodwill if the Board decides to pursue amortization as an alternative for public business entities or as a requirement for the system overall. The Board could decide that amendments developed as part of that project also should apply to not-for-profit entities within the scope of this proposed Update. Thus, it is possible that entities electing these alternatives could be subject to future changes on the same Topics.*

Are there any reasons why the Board should exclude not-for-profit entities as part of that other project? If so, please explain why.

No. TIC has no reason to exclude NFP entities from the project to examine the amortization period. TIC believes that it would be beneficial to extend these alternatives to NFP entities as soon as possible even if it means additional changes at a later date as a result of the project on goodwill amortization period for all entities. TIC would expect that, if the Board is considering affording similar options to public business entities, that would take years of research and outreach and TIC believes that the current alternatives that are afforded to private companies should be made available to NFP entities without them having to wait for a decision to be made for public business entities.

ADDITIONAL COMMENT

NFP entities are somewhat unique in that government agencies, private donors, and other users of their financial statements look very closely at the ratio of an NFP entity's fundraising and general and administrative expenses in relation to their programmatic expenses. TIC believes that FASB should consider allowing NFP entities to exclude goodwill amortization expense from the functional expense analysis required by ASU 2016-14 once this proposed ASU becomes effective. However, TIC would not want this issue to hold up the issuance of the ASU as TIC believes there will be many NFP entities that will want to adopt this simplification as soon as possible.

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 black ink that reads "Michael A. Westervelt". The signature is written in a cursive, flowing style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees