



Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

August 23, 2013

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Accounting for Goodwill—a Proposal of the Private Company Council* (File Reference No. PCC-13-01B)

Dear Ms. Cosper:

We are pleased to provide comments on the goodwill exposure draft (the ED). For private companies, we agree with the option to adopt a simplified approach to the accounting for goodwill after it is initially recognized. The outreach conducted by the Board and PCC indicates amortizing goodwill and adopting a one-step impairment model provide useful information for private company stakeholders, but on a more cost-effective basis than under current U.S. GAAP.

As indicated to you in our response to the proposed amendments for recording intangible assets, we note that introducing accounting alternatives for private companies will create new practice issues for public companies such as in the application of equity method accounting. For example, if the Board permits private companies to amortize goodwill and a public equity method investor calculates its share of earnings based on the financial statements of the private company (including goodwill amortization) that is not considered "significant" under Rule 3-09 of Regulation S-X,¹ the result would conflict with the "one-line consolidation" principle in Topic 323.² Conversely, if a public equity method investor honors the "one-line consolidation" principle and conforms the accounting of the private company (replaces goodwill amortization with a goodwill impairment assessment), significant time, effort, and hindsight could be required. While the Board might address the potential implications of each PCC project individually, we recommend a more comprehensive approach that identifies, and provides direction for, the situations in which public companies will encounter conflicts between public and private company GAAP.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at (312) 616-4667 or Adam Brown, Partner in the National Accounting Department at (214) 665-0673.

¹ *Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons*. While the Board's August 7, 2013 exposure draft on the definition of a public business entity states that a significant equity method investee would be considered public (para BC12), it does not explicitly address whether a registrant's equity method investee that lacks significance under Rule 3-09 is considered public. If the definition of a public business entity is intended to capture insignificant equity method investees through the reference to "...other entities whose financial statements *or financial information* are required to be or are included in a filing...(emphasis added)," we believe this point merits clarification and greater prominence in that project's final amendments.

² See ASC 323-10-35-13.

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Very truly yours,

BDO USA, LLP

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Appendix

Note: We have responded to all questions other than those posed specifically to users.

Please indicate whether you primarily are a preparer, user, or public accountant. If other, please specify.

- a. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
- b. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
- c. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.

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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?

Except as noted in our response to the next question, we do not believe additional scope modifications are necessary.

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?

We believe not-for-profit entities should be included in the scope of the proposed accounting alternative, and that it should be elective for them. While business combination accounting is less frequent for NFPs compared to for-profit entities, some of those that account for goodwill may find the option provided under the ED useful.

We believe potentially expanding the scope to include public companies would be a broader reconsideration that would require the Board to re-evaluate some of its prior conclusions about goodwill.

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

Yes, the ED would reduce costs, as well as the complexity associated with performing the traditional two-step impairment test.

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?

We understand views are mixed on the decision-usefulness of amortizing goodwill vs. only assessing it for impairment. It is not clear to us that the majority of users find one approach more relevant than the other. However, we agree the proposed amendments would reduce costs for private companies, and also note that users of private company statements will be able to rely on the “red-flag” approach if they have additional questions about the recovery of goodwill to discuss with management.

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?

We believe the reporting entity should be able to establish the useful life of goodwill without a 10 year limit. This would still include a consideration of the primary asset’s life to ensure the resulting life is reasonable. However, it would also allow the reporting entity to consider the useful life for income tax purposes, an area the PCC identified in its draft decision-making framework as “a strong focus by private companies.”³

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?

We agree with performing the impairment test at the entity-wide level in order to mitigate costs. Performing the test at that level may defer or mask impairment tests performed at a lower, reporting-unit level in certain circumstances. However, amortizing goodwill should mitigate this potential outcome.

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?

³ See DF8 in Section IV, Ownership and Capital Structures in the April 2013, *Private Company Decision-Making Framework*.

Yes, we agree with testing for goodwill on an exception-basis as opposed to maintaining the current annual requirement. We note this approach has been used successfully in practice for amortizing long-lived assets.

Question 9: In the proposed amendments, an entity would consider the same examples of events and circumstances for the assessment of triggering events as those considered for the qualitative assessment. However, the PCC intends the nature and extent of those two assessments to be different. The assessment of triggering events would be similar to the current practice of how an entity evaluates goodwill impairment between annual tests. In contrast, the optional qualitative assessment would be part of an entity's goodwill impairment test, requiring a positive assertion, consistent with current practice, about its conclusion reached and the events and circumstances taken into consideration. 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?

Yes, we agree. We note this approach has been used successfully in practice for amortizing long-lived assets.

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?

We agree the one-step test should be more cost-effective than a two-step approach, given the feedback from private company users who have indicated a goodwill impairment charge provides them with limited benefits.

If a goodwill impairment is recorded, paragraph 350-20-35-73 states that the loss should be "allocated to amortizable units of goodwill on a reasonable and rational basis. If such a basis cannot be determined, the impairment loss shall be allocated to individual amortizable units of goodwill on a pro rata basis using their relative carrying amounts." This language implies a pro rata approach is an alternative to a "reasonable and rational" basis. We suggest rephrasing the language to state that a goodwill impairment loss should be "allocated to amortizable units of goodwill on a reasonable and rational basis, such as a pro rata basis using the relative carrying amounts of amortizable units of goodwill." Since the ED permits goodwill impairment to be assessed at the entity level, it is unclear whether an alternative method of allocating the loss, such as using the relative fair value of each of the previously-acquired businesses, would produce more useful results in a cost-effective manner.

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

We agree with most of the proposed disclosures in 350-20-50-4 through 50-8. However, we do not support the quantitative reconciliation proposed in 350-20-50-6. We note most of the activity

related to goodwill is already apparent in the primary financial statements or through other footnote disclosures, such as the amount of goodwill recognized during the period, as well as the amount of amortization or impairment, if any. As such, we do not see any significant incremental benefit in the rollforward.

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?

We agree with prospective adoption. We do not support retrospective application because it would introduce hindsight into fair value assessments as well as determining the useful life of goodwill.

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?

As discussed in our response to question 6, we would permit entities to establish a useful life for goodwill without a 10 year limit. We recommend the same approach upon initial adoption of the proposed amendments.

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

We support finalizing this project as soon as possible and permitting early (immediate) adoption. Assuming early adoption is available, we have no preference for a particular effective date since the nature of the proposed alternative is elective.

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

We anticipate minimal effort.

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.)

We believe electing one of the proposed updates should be conditional on also electing the other. However, if the Board concludes the projects do not necessarily require complete linkage, we

believe entities that choose not to record certain identifiable intangible assets under PCC-13-1A should be required to amortize goodwill. Among other things, a one-directional link would mitigate the need for future goodwill impairment assessments.

Question 18: 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.

We will provide views on this topic in our comment letter on the August 7, 2013 exposure draft regarding the definition of a public business entity.

Other Comment

The Board should provide guidance for private companies who initially elect one or more accounting alternatives developed by the PCC, and subsequently decide they wish to revert to public company GAAP. If that scenario arises, would preferability need to be demonstrated, or could it be assumed?