



July 16, 2013

FASB's Private Company Council: Proposed Accounting Alternative – Business Combinations

SUMMARY OF PROPOSAL

- The Financial Accounting Standards Board (FASB), through its Private Company Council (PCC), issued a proposed alternative within U.S. generally accepted accounting principles (GAAP), that would modify the requirement for private companies to separately recognize fewer intangible assets acquired in a business combination.
- The accounting alternative in the proposal is intended to provide a private company with an accounting alternative to recognize only those identifiable intangible assets arising from non-cancelable contractual terms or those arising from other legal rights.
- The proposed accounting alternative would generally result in companies recognizing fewer intangible assets in a business combination than under current GAAP because not all identifiable intangible assets would be recognized, as required currently under Topic 805 (which requires an acquirer to recognize assets acquired and liabilities assumed in a business combination at their acquisition-date fair values, including all intangible assets that are identifiable).
- FASB believes this would reduce the cost and complexity of valuing intangible assets acquired in a business combination.
- FASB is accepting comments until August 23; please send comments to CUNA by August 16.

DESCRIPTION OF PROPOSAL

Who Would Be Affected by the Amendments in the Proposal?

The proposed accounting alternative would be available to a company that is required to apply the acquisition method under Topic 805, Business Combinations, except for publicly traded companies and not-for-profit organizations. An entity within the scope of the proposed amendments that elects to apply the amendments in this proposal would be subject to all of the related recognition, measurement, and disclosure requirements within the accounting alternative. The accounting alternative, if elected, would apply to all business combinations entered into after the effective date.

What Are the Main Provisions?

The proposed amendments would provide guidance about an accounting alternative for the recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination. An entity within the scope of the proposed amendments that elects the accounting alternative would recognize separately from goodwill only those identifiable intangible assets that arise from contractual rights with noncancelable contractual terms, or that arise from other legal rights, whether or not those intangible assets are transferable or separable. An entity would be required to disclose qualitatively the nature of identifiable intangible assets acquired but not recognized as a result of applying this accounting alternative.

Identifiable intangible assets that arise from contractual rights would be measured using the fair value measurement principles of Topic 820 except that the measurement only would consider market participant assumptions about the remaining noncancelable term and, therefore, would not consider any potential contractual renewals or cancellations that ordinarily would be considered in determining the fair value of that contract. Identifiable intangible assets that arise from other legal rights but that are not

contractual would continue to be measured at fair value in accordance with Topic 820, Fair Value Measurement, incorporating all market participant expectations.

How Would the Main Provisions Differ from Current GAAP and Why Would They Improve GAAP for Private Company Stakeholders?

The amendments in this proposal are intended to reduce cost and complexity by providing an entity with an accounting alternative to recognize only those identifiable intangible assets arising from noncancelable contractual terms or those arising from other legal rights. The proposed amendments generally would result in entities recognizing fewer intangible assets in a business combination than under current GAAP because not all identifiable intangible assets would be recognized separately, as currently required under Topic 805.

Topic 805 requires an acquirer to recognize assets acquired and liabilities assumed in a business combination at their acquisition-date fair values, including all intangible assets that are identifiable. An intangible asset is identifiable if it meets either one of the following criteria:

- 1) 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.
- 2) 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.

Overall, the PCC believes that the accounting alternative for identifiable intangible assets acquired in a business combination is responsive to the unique needs of private companies. The PCC believes that the alternative recognition, measurement, and disclosure guidance would continue to provide decision-useful information to the users of private company financial statements, while reducing the cost and complexity associated with the valuation of certain identifiable intangible assets.

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

CUNA Question 2: Do you agree that the accounting alternative for the recognition and measurement of intangible assets acquired in a business combination would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide more relevant information to users?

CUNA Question 3: 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?

When Would the Amendments Be Effective?

The accounting alternative for identifiable intangible assets 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. The proposal does not include an effective date. Early application would be permitted.

CUNA Question 4: Do you agree that the proposal should be applied on a prospective basis? Should retrospective application be permitted?

CUNA Question 5: The scope of this proposal 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, FASB 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. FASB 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 proposal. FASB 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 GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement.

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

CUNA Question 6: Any other comments or questions.

Please send comments to Senior Assistant General Counsel [Luke Martone](#).

Click [here](#) for the proposal.