

## FAIR VALUE FOR REPORTING PURPOSES: A Panel Discussion

Here is a summary of the topics put together by moderator, Gary Frantzen, for BVA's September 19<sup>th</sup> panel discussion. Panelists included Rebecca Nelson (Duff & Phelps), Dan Lynn (Deloitte) and Evan Sussholz (Ernst & Young).

### UPDATES

Adoption of CEIV/MPF

- Release of CEIV Handbook
  - changes to the "engagement level quality review"
  - designation requirements
  - compliance and oversight of CEIVs
- Impact of MPF n the use of PFI clients
  - skepticism and disclosure of contrary evidence
  - support and documentation

Impact of tax reform on fair value measurement

New lease accounting rules

### NEW

FASB invitation for comment regarding accounting for goodwill and intangible assets acquired in a business combination for public companies

- Issues addressed at ITC
- Impact of changes in the public company guidance on PCC guidance and not-for-profit guidance
- Support for alternatives

*Background provided by Gary Frantzen—*

1. Impairment only model – current state
  2. Amortization only model
  3. Impairment and amortization model with no changes to impairment test
  4. Impairment and amortization model with changes to impairment test
- FASB is considering eliminating the reporting units and testing at the entity level or other level of organization.
  - FASB is considering eliminating Non-competes and certain customer related intangibles as separate from goodwill
  - FASB considering subsuming other intangible assets into goodwill
1. Extend PCC guidance to public entities (OPTION to eliminate certain customer intangibles and Non-competes) and amortize goodwill
  2. Require subsuming certain intangibles into goodwill and amortization
  3. Use a principles based criterion for recognition of intangibles
  4. Subsume all intangibles into goodwill and amortize or test for impairment
  5. Retain status quo

- FASB considering additional or modified disclosures including:
  1. Information regarding impairment tests that did not conclude an impairment
  2. Requiring qualitative and quantitative information about underlying agreements related to the material intangible assets
  3. Ideas regarding new or enhanced disclosures for either
- FASB considering importance of comparability between:
  1. Private companies, not-for-profits and public companies reporting under GAAP.
  2. All public companies reporting under GAAP.
  3. All private entities reporting under GAAP.
  4. Public entities under GAAP and IFRS.

In recent years the Board has continued to receive feedback from PBEs that the benefit of the accounting for intangible assets and goodwill do not justify the cost to prepare and audit the information.

“The objective of this ITC is to gather additional information about the costs and benefits of the accounting for goodwill and certain recognized intangible assets, not to explore the conceptual underpinnings of the recognition and measurement of those items.”

New guidance on Market Participant Acquisition Premiums (MPAP)

New guidance on the Valuation of Portfolio Investments

*Background provided by Gary Frantzen--*

The American Institute of CPAs (AICPA) has issued guidance for investment companies on how to fair value their portfolio company investments. The accounting and valuation guide titled, *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies*, is intended to harmonize views of industry participants, auditors and valuation specialists.

November 2018 Draft of inventory valuation guidance

- Key principles and impact on models
  - Functional apportionment
  - Top-down analysis
  - Bottom-up analysis
  - Contributions from intangible assets
  - Holding costs vs. interest expense
  - Pre-sold inventory vs. backlog