MINUTES

Financial Accounting Standards Board

To: Board Members

From: Yust (x442)

Subject: March 19, 2008 Board Meeting Minutes- Determination of the Useful Life of Intangible Assets

Date: March 28, 2008

cc: Golden, Bielstein, MacDonald, Leisenring, Lott, Cosper, Wyatt, Tully, Roberge, Bossio, C. Smith, Chookaszian, Posta, Polley, Gabriele, Glotzer, Klimek, Allen, Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic:	Determination of the Useful Life of Intangible Assets
Basis for Discussion:	Board Memorandum No. 6 and Addendum
Length of Discussion:	9:00 a.m. to 10:00 a.m.

Attendance:

Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman, Smith, and Young
Board members absent:	None
Staff in charge of topic:	Wyatt and Tully
Other staff at Board table:	Golden, Cosper, Yust

Summary of Decisions Reached:

At the March 19, 2008, Board meeting, the Board discussed comments received on the proposed FASB Staff Position (FSP) FAS 142-f, *Determination of the Useful Life of Intangible Assets*. The Board reached the following decisions in addressing the comments received on the proposed FSP:

1. The final FSP should include two examples to illustrate the principles in the FSP.
2. The final FSP should only include disclosures of:
    a. The weighted-average period prior to the next renewal or extension
    b. The entity's accounting policy on the treatment of costs incurred to renew or extend the term of a recognized intangible asset, and
    c. The amount of costs incurred to renew or extend the term of a recognized intangible asset that have been capitalized into the carrying amount of a recognized intangible asset.
3. The final FSP should reinforce the existing disclosures requirements in AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties.*
4. The guidance in the final FSP for determining the useful life of a recognized intangible asset should be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements in the final FSP should be applied prospectively to intangible assets recognized as of, and subsequent to, the effective date.
5. The final FSP should be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.
6. The staff may proceed to a preballot draft of the final FSP.

Objectives of Meeting:

1. The objective of the meeting was for the Board to discuss the significant issues raised by respondents in the comment letters received on the proposed FSP. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

Issue 1: Example Provided in the Proposed FSP

2. **Staff Recommendation:** Mr. Tully stated that the example was originally included in the proposed FSP to address the concern that the modified criteria in paragraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets,* would trump the other factors considered when determining the useful life. However, the staff has since modified the proposed FSP to clarify that no one factor in paragraph 11 is more presumptive than the other. Accordingly, the staff no longer believes the example is necessary and could result in the misapplication or misuse of the principle in the FSP due to the uniqueness and complexity of each fact pattern. However, the staff prepared two alternative examples that have been distributed to the Board if the Board believes the examples should be included.

3. **Board Vote:** Messrs. Batavick, Linsmeier, Smith, and Young voted to include the staff's revised examples in the final FSP. Messrs. Herz, Crooch, and Ms. Seidman voted to not include the examples.

4. **Board Comments:** Mr. Smith believed the examples were useful in demonstrating the principle in the proposed FSP. He believed it was important to illustrate that there are instances where an entity should consider entity-specific factors that could result in a different useful life than market participants would have selected. Mr. Linsmeier agreed but believed that such situations would be rare.

5. Mr. Smith questioned whether the second example that the staff prepared was even necessary. Mr. Tully answered that the example reinforced that customer relationships would be within the scope of the final FSP.

Issue 2: Disclosures

6. **Staff Recommendation:** Ms. Wyatt stated that the objective of the disclosures was to provide information that enables users to assess the extent to which expected future cash flows are affected by the entity's intent and/or ability to renew or extend an arrangement. Following feedback received during the comment period, the staff believes that most of the disclosures in the proposed FSP would either (a) be redundant with other GAAP, (b) be redundant with existing disclosure requirements in Statement 142, (c) create additional application issues, or (d) not be useful. As such, the staff recommends only retaining the modified disclosure in paragraph 13(a), the weighted-average period prior to the next renewal or extension, and reinforcing the existing disclosure requirements under SOP 94-6, which entities should evaluate and apply by major intangible asset class.

7. **Board Vote:** Messrs. Herz, Crooch, Linsmeier, Smith, Young and Ms. Seidman voted to support the staff's recommendation and additionally disclose the policy for capitalizing renewal or extension costs and the amount of costs capitalized in that period for recognized intangible assets. Mr. Batavick voted to support the staff's recommendation with no additional disclosures.

8. **Board Comments:** Mr. Young questioned how users would apply the provisions of the proposed FSP to renewable intangible assets if there was no contract. Ms. Wyatt stated that she believed the Board had already agreed (at a prior Board meeting) that recognized intangible assets with both explicit or implicit renewal or extension terms would be included within the scope of the final FSP. She cited the example of a cell phone contract although Mr. Young did not believe that cell phone companies had a renewable contract at the end of the initial two year agreement. Mr. Golden said he believed that a cell phone did have an implicit renewal contract following the end of the two year agreement.

9. Mr. Young stated that there were already two models for intangible assets: (a) those developed internally and (b) those acquired from a third party. He was concerned that this FSP would essentially result in the creation of a third intangible asset

model because it would allow for the capitalization of renewal costs. He also believed this model could apply to essentially every intangible asset and that renewal or extension costs should be expensed. Mr. Golden disagreed that a third model will exist. He indicated that this FSP applies only to acquired intangible assets and Statement 142 already allows for the capitalization of a cost paid to a third party to acquire an intangible asset on the acquisition date.

10. Ms. Seidman stated that the FSP did not provide guidance on the accounting treatment of renewal or extension costs. Ms. Wyatt agreed and believed that Mr. Young's concern would be an issue regardless of the issuance of the final FSP. Mr. Herz added that the fundamental problem was that internally generated and externally purchased intangibles were accounted for differently. However, he stated that the Board had already decided not to address that issue based on the advice of users.

11. Ms. Seidman and Mr. Linsmeier proposed that an entity could be required to disclose their accounting policy for the treatment of renewal or extension costs. If those costs are significant, they could be disclosed along with information about whether they were capitalized or expensed.

12. Mr. Batavick did not think this would be feasible for companies that have hundreds or thousands of intangible assets, such as customer relationships. He believed that such a disclosure also went beyond the original intent of the project which was only to address the practice issue associated with determining the useful life. He also believed that it would cause additional implementation issues and questions. Ms. Seidman agreed that the same issue existed for property, plant, and equipment. She suggested the staff check with some companies as to feasibility of these disclosures.

Issue 3: Transition

13. **Staff Recommendation:** The staff recommended that the guidance on the determination of the useful life only be applied prospectively to assets acquired after the effective date of the final FSP. The staff believes that many of the existing recognized intangible assets are already substantially amortized as a result of applying the existing criteria in paragraph 11 of Statement 142, and as such, to apply the useful life guidance to preexisting recognized intangible assets would require significant effort and would result in an amortization that does not accurately depict the pattern of economic benefit.

14. The staff stated that the disclosures in the proposed FSP would have only been applicable to those intangible assets acquired, renewed, or extended after the effective date of the final FSP. However, the staff noted that the new disclosures proposed by the Board (regarding capitalization of renewal or extension costs) would be an ongoing disclosure. Accordingly, the staff recommended that the disclosures be applied prospectively to *all* recognized intangible assets to provide consistent disclosures.

15. **Board Vote:** The Board unanimously voted that the guidance in the final FSP for determining the useful life of a recognized intangible asset should be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements in the final FSP should be applied prospectively to intangible assets recognized as of, and subsequent to, the effective date.

16. **Board Comments:** Mr. Young questioned whether the disclosures would allow entities to capitalize additional costs from what they did in previous periods. Ms. Seidman did not foresee this problem. Mr. Golden believed that, if anything, fewer costs would be capitalized because entities would have to disclose their policies for doing so.

Issue 4: Effective Date

17. **Staff Recommendation:** Ms. Wyatt stated that several respondents indicated that the effective date should be deferred. Ms. Wyatt recommended that the effective date be deferred to fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This deferral would align the effective date with the effective dates of FASB Statement No. 141 (revised 2007), *Business Combinations,* and FASB Statement No. 157, *Fair Value Measurement*, for nonfinancial assets and nonfinancial liabilities which should reduce implementation issues.

18. **Board Vote:** The Board unanimously agreed to support the staff recommendation for a deferral of the effective date of the final FSP.

19. **Board Comments:** None.

Follow-Up Items:

None.

General Announcements:

None.