



Letter of Comment No: 3
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Mr. Lawrence W. Smith
Director, TA&I - FSP
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. FAS 142-c, "Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Exchange Memberships"

Dear Mr. Smith:

We are pleased to comment on the proposed FASB Staff Position No. FAS 142-c, "Application of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to Exchange Memberships" (FSP142-c or the proposed FSP).

We appreciate the staff's efforts to address a current practice issue in an expeditious manner. However, we believe the staff should not issue a final FASB Staff Position on this narrow issue. The proposed FSP contains guidance that conflicts with other higher level FASB literature and may cause confusion. In addition the proposed FSP appears contrary to the FASB's current movement towards issuing principles-based standards that apply broadly with few, if any, scope exceptions.

Proposed FSP at Odds with Higher Level Literature

The definition of a financial asset in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, states, in part:

Financial Asset

Cash, *evidence of an ownership interest in an entity*, or a contract that... (Emphasis in italics added).

The definition of intangible assets provided in FASB Statement No. 142 states, in part:

Intangible Assets

Assets (*not including financial assets*) that lack physical substance... (Emphasis in italics added).

Thus, the conclusion in the proposed FSP which would require exchange memberships that otherwise meet the definition of financial assets to be accounted for as intangible assets contradicts higher level FASB guidance. Creating such an exception through a FASB Staff Position for one financial asset potentially creates uncertainty with respect to the accounting for other financial assets. For example, should certain cooperative memberships which meet the definition of a financial asset (e.g., the instrument represents an ownership interest) also be accounted for as intangible assets if they provide

certain rights not typical in other ownership interests (e.g., the right to purchase or sell products at terms that include favorable pricing). While we acknowledge the limited scope of the proposed FSP, we do not believe that exchange memberships are so unique as to preclude analogy to other similar financial assets.

Proposed FSP Fails to Provide Fundamental Rationale for its Conclusion

We agree that many exchange memberships have characteristics of both financial assets, through their ownership interest element, and intangible assets, as they lack physical substance and convey certain rights to the holder of the memberships. This leads us to observe that the accounting challenge might involve the following questions:

- In what circumstances should a predominant characteristic of an asset or liability “trump” other characteristics of a position?
- What factors should be considered in determining the predominant characteristic of an asset or liability?

The proposed FSP appears to subsume these difficult questions – it does not clearly provide the rationale that led to the conclusion.

Is an Exception to an Established Principle Needed?

In the October 2002 proposal, *Principles-Based Approach to U.S. Standard Setting*, the Board indicated a belief that an objective of a principles-based approach should be to eliminate application exceptions. In the *FASB Response to SEC Study on the Adoption of a Principle-Based Accounting System* (July 2004), the Board noted that the SEC Study appropriately points out “a consequence of scope exceptions is increased complexity and the need for more rules.” In response to this point, the Board acknowledged that “it needs to be diligent in making rational and consistent scope decisions and that scope decisions that provide for fewer exceptions are desirable.” We acknowledge that scope exceptions may be necessary in certain circumstances but believe, agreeing with much of the Board’s beliefs, that such exceptions should be judiciously applied, avoided if possible, and generally not used for narrow circumstances.

We believe that the proposed FSP is a form of a scope exception for a narrow circumstance that may increase the complexity of accounting guidance and create the need for more rules. By only addressing a single type of asset, exchange memberships, and providing accounting that appears to differ from the general principles within the definitions of financial assets and intangible assets, we believe the staff is creating a scope exception that, as we noted above, will create uncertainty and the need for additional guidance for similar instruments.

If the Board believes that certain rights encompassed within some ownership interests cause the instrument to have characteristics more similar to intangible assets than financial assets, we believe the Board should address this issue through a project that broadly identifies such characteristics, develops a model for evaluating the predominant characteristics of such assets, and revise the definitions of financial assets and intangible assets such that they encompass these principle-based thoughts and can be broadly applied. This approach will enhance comparability, reduce the level of detail and complexity that arises from exceptions and reduce the need for more rules.

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We appreciate your consideration of our comments. If you have any questions concerning our comments, please contact Bob Uhl at (203) 761-3705.

Yours truly,

Deloitte & Touche LLP