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November 28, 2006



LETTER OF COMMENT NO. 13



Mr. Larry Smith Director of Technical Application and Implementation Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position No. 141-b, 142-e, and 144-b, Fair Value Measurements in Business Combinations and Impairment Tests

Dear Mr. Smith:

We appreciate the opportunity to comment on the Proposed FASB Staff Position No. 141-b, 142e, and 144-b, Fair Value Measurements in Business Combinations and Impairment Tests We recognize that diversity in practice currently exists related to the ("Proposed FSP"). assumptions used in fair value measurements of nonfinancial assets that are required to allocate purchase price in business combinations and to determine amounts of impairment charges pursuant to FASB Statements No. 142, Goodwill and Other Intangible Assets (Statement 142) and No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144), respectively.

It is our understanding that much of this diversity stems from a belief held by many constituents, and their auditors, that upon the issuance of FASB Statement No. 141, Business Combinations, (Statement 141), the Board did not intend to change existing practice with regard to entityspecific considerations that were used regularly in purchase price allocations under APB Opinion No. 16, Business Combinations (Opinion 16). This diversity also results from inconsistencies and ambiguities in the salient guidance of Statements 141, 142, and 144. As a result, entity specific assumptions are often used in Statement 141 purchase price allocations when valuing acquired assets that will not be fully utilized post-acquisition. For example, entity specific assumptions are often used to value intangible assets such as trademarks or in-process research and development that the acquirer expects to abandon after the acquisition. Therefore, in our view, the Proposed FSP would not provide a clarification of existing guidance, but rather would essentially constitute the issuance of new measurement guidance.

One intention of FASB Statement No. 157, Fair Value Measurements, (Statement 157) is to eliminate the diversity in practice in determining fair value. When deliberating Statement 157, the Board made a conscious decision to extend the effective date of Statement 157 to provide



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entities with sufficient time to understand and implement the objectives of the Statement. The Proposed FSP would require entities to deal with certain of these issues in a more compressed time frame and require measurements that would not be consistent with fair value, as defined in Statement 157. We question whether any short-lived benefits of issuing the Proposed FSP would outweigh the increased complexity that would be associated with the adoption of new measurement guidance that has a useful life of approximately one year.

In our view, the Board has adequately addressed the diversity in practice that exists among entities through the issuance of Statement 157. As such, we concur with the objections of the three Board members disclosed in paragraphs 14 and 15 of the Proposed FSP, and do not support its issuance.

## **Other Comments**

If the Board decides to move forward with the issuance of the Proposed FSP, we have certain comments about specific aspects of the proposal which we believe will improve the final staff position.

## Fair Value Measurement

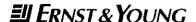
The description of the requirements of a fair value measurement included in paragraph 6 of the Proposed FSP should include a clarification, similar to that found in Statement 157, that market participant assumptions do not require specific market participants to be identified, but require only the identification of characteristics that distinguish market participants generally. Without this clarification, we believe the Proposed FSP might inadvertently continue the perceived ambiguity with respect to the use of entity-specific data when the assumptions of specific market participants cannot be determined.

## Defensive Value

The defensive value concept introduced in the Proposed FSP has not been previously discussed in existing authoritative literature, with the exception of the recently issued Statement 157, where the concept was only referred to within an example in the implementation guidance. As such, we believe it is important for the Board to provide further guidance and practical examples of the application of the defensive value concept in order to avoid creating diversity in practice.

We suggest that such guidance and examples address the following implementation issues:

1. Conceptually, how are the elements of defensive value distinguished from the elements generally associated with the value of goodwill of an acquired entity?



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2. Should the defensive value attributed to an acquired asset be a separately recognized intangible asset or included as an increase to the carrying value (if any) of the existing asset(s) it defends?

- 3. If the acquired asset is recognized separately, should its estimated useful life be consistent with the useful life of the asset(s) it defends? For example, if the asset being defended is an indefinite lived intangible asset, should the acquired asset that is recognized at defensive value also be considered to have an indefinite life? Alternatively, should the asset be considered to have a definite life, recognizing that either (a) defensive value diminishes over time or (b) defensive value is similar to other period costs expensed as incurred to support the value of an indefinite lived intangible asset (e.g., advertising costs)?
- 4. If the acquired asset should be recognized separately and have an indefinite life, what is the unit of accounting that should be applied for impairment testing?

Effective Date and Transition

While the Proposed FSP would have an effective date for all fiscal periods beginning after December 15, 2006, the transition does not address how to apply the provisions of the Proposed FSP to a business combination in which a preliminary purchase price allocation has been completed before the adoption and a final purchase price allocation will occur after adoption of the Proposed FSP. We suggest that the Proposed FSP provide guidance in this regard. In our opinion, if an entity's allocation period remains open after adoption of the provisions of the Proposed FSP, and if relevant information exists and is available as of the acquisition date, the final purchase price allocation should take into account the provisions of the Proposed FSP.

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Ernst + Young LLP