



LETTER OF COMMENT NO. 7

November 22, 2006

Mr. Lawrence W. Smith  
Director, TA&I – FSP  
Financial Accounting Standards Board  
401 Merritt 7  
P. O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. FSP 141-b, 142-e, and 144-b**  
**Re: Proposed FASB Staff Position No. FAS 141-b, 142-e, and 144-b, “Fair Value Measurements in Business Combinations and Impairment Tests”**

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to comment on proposed FASB Staff Position No. FAS 141-b, 142-e, and 144-b, “Fair Value Measurements in Business Combinations and Impairment Tests” (the “proposed FSP”). We do not support issuance of the proposed FSP.

The proposed FSP would require companies, in an extremely short time frame, to apply a new concept, defensive value, in a manner that will change once companies adopt the provisions of FASB Statement No. 157, *Fair Value Measurements*. This raises the questions of (1) whether the benefit of the proposed FSP will exceed related costs, and (2) whether the short time frame will lead to inconsistent application. The application of the defensive value concept in two different ways over the next 18 months will be confusing and will add complexity to generally accepted accounting principles (GAAP).

Instead, the Board should, before the effective date of Statement 157, work with preparers and auditors to better identify and evaluate Statement 157 implementation issues when applied in connection with FASB Statements No. 141, *Business Combinations*; No. 142, *Goodwill and Other Intangible Assets*; and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

#### **Benefits Do Not Exceed Cost of Implementation**

Paragraph 23 of FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, states that “[t]he information provided by financial reporting involves a cost to provide and use, and generally the benefits of information provided should be expected to at least equal the cost involved.” Given the short “useful life” of the proposed FSP, we do not believe that the benefits derived from its issuance would exceed the cost of implementation. The practice issues addressed in the proposed FSP are not new and have been encountered since the issuance of Statements 141 and 142. We do not see the benefit of addressing the practice issues via the proposed FSP, rather than waiting for the adoption of the provisions of Statement 157. The interim measures in the proposed FSP may cause unnecessary confusion on the part of preparers and users, particularly given the piecemeal early adoption discussed below.

### **Piecemeal Early Adoption May Be Confusing**

The proposed FSP represents, in essence, a piecemeal early adoption of certain provisions of Statement 157. While some of the provisions of Statement 157 that are not incorporated into the proposed FSP will not result in valuation differences, others will. For example, paragraph A12 of Statement 157 implies that, prior to using its own assumptions to determine the defensive value of an asset, an entity should consider how the asset would provide value if it *either* were locked up or continued to be used by marketplace participants. However, the proposed FSP implies that an entity should consider *only* how the asset would provide value if it were locked up by other marketplace participants. We are unsure of the reason for the difference, but we assume that it is because the proposed FSP does not incorporate Statement 157's in-use or in-exchange premise, which is used to assess the highest and best use. Such differences will cause unnecessary confusion and complexity in GAAP.

### **Implementation Issues Related to the Concept of Defensive Value**

- What considerations are necessary when measuring defensive value? Since Statement 157 refers to defensive value in the context of improving the prospects for the holder's own assets by removing competing products or technologies from the marketplace, is the related amount the value of those expected improvements? Are the expected improvements in the prospects of the holder's own assets intended to be measured inclusive or exclusive of any improvements that may result from unique synergies available to the acquirer? If intended to be exclusive, how should those unique synergies be measured?
- Are any unique considerations necessary when, under Statement 142, determining the useful life and method of amortization (if finite-lived) of an intangible asset is entirely based on or is inclusive of defensive value? Assume a company acquires a trade name in a business combination that is inferior to its existing trade name. The existing trade name has an indefinite life. The company intends to lock up the acquired trade name and values it based on defensive value. Since the trade name is removed from service by the acquirer, should an immediate impairment result or should the useful life and method of amortization be based on the expected defensive value? If they are based on the expected defensive value, and if the prospects of the holder's own assets are expected to improve, is the useful life indefinite or should its useful life and amortization differ from those of an acquired intangible asset that will no longer be subject to marketing support?
- Given the above example of an acquired trade name that the acquirer does not intend to use in the ongoing operations, would it be appropriate to apply an in-use valuation premise and value the acquired trade name together with the related acquirer trade name? If so, how would the resulting amount be allocated in purchase accounting to the specific asset acquired?

**Recommendations If the Staff Issues the Proposed FSP**

If the FASB staff ultimately does decide to issue the proposed FSP, we encourage consideration of the following comments:

1. The proposed FSP should be as consistent with Statement 157 as possible. In addition, the implementation guidance referred to above should be included in the proposed FSP.
2. Statement 141 provides specific examples related to transition guidance when a business combination is initiated (but not consummated) before its effective date. Should preparers and auditors assume that the same concepts are implicit within the proposed FSP? That is, the guidance in the proposed FSP on allocating the fair value to assets acquired and liabilities assumed in purchase accounting would only be applicable to a transaction that is consummated after the proposed FSP is adopted. If this is the case, the FASB should consider clarifying the transition provisions.
3. An effective date of fiscal years beginning after December 15, 2006, appears to provide insufficient time for entities to apply the proposed FSP. We ask that the staff consider delaying the effective date for six months. That this date shortens the period for which the proposed FSP would be effective suggests that focusing the FASB staff's attention on implementation guidance for Statement 157 is a better approach than finalizing the proposed FSP.

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Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. For questions about our comments, please contact Lisa Delfini at (203) 761-3271 or Stuart Moss at (203) 761-3042.

Yours truly,

Deloitte & Touche LLP

cc: James Johnson