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DUFF & PHELPS

January 16, 2008



LETTER OF COMMENT NO. 8

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

Re: File Reference: Proposed FSP FAS 142-f

Duff & Phelps appreciates the opportunity to provide comments on Proposed FSP FAS 142-f. We would be pleased to further discuss our comments with the Board and staff. Please direct any questions to Paul Barnes in our Philadelphia office at (215) 430-6025.

Sincerely,

/s/ Paul F. Barnes
Managing Director
Global Leader – Valuation Advisory Services

Proposed Guidance on the Determination of the Useful Life of an Intangible Asset

We agree with the proposed language for paragraph 11(d) of Statement 142.

We believe that the proposal is consistent with what we understand to be the *principle* for determining the useful life of an intangible asset in Statement 142, specifically, that “the accounting for a recognized intangible asset is based on its **useful life** to the reporting entity”, where the useful life is “the period over which an asset is expected to contribute directly or indirectly to future cash flows.”¹ We view the factors outlined in paragraph 11 (a) – (f) of Statement 142 as guidance that was provided to facilitate the application of the above principle, except that 11(d) represented an abuse prevention rule.

The proposed guidance in FSP 142-f appears straightforward, helpful and cost-efficient and represents a vast improvement over the previous guidance in the same paragraph. However, we observe that with or without the proposed guidance, provided that the current paragraph 11(d) is eliminated, a faithful application of the above principle together with the remaining guidance in paragraph 11 of Statement 142 should result in the same conclusion about useful life². In that regard, the proposed guidance is primarily helpful in increasing the auditability of the estimated useful life of renewable intangible assets.

Further, we believe that in order to increase the understandability of the proposed FSP, it would be helpful to provide a few examples of those assets designated as renewable intangible assets. For example, the following could be helpful: “The term “renewable intangible assets” includes all intangible assets for which a marketplace participant assumes renewal or extension, regardless of whether the contract has explicit provisions that enable renewal or extension. Renewable intangible assets include, but are not limited to, gaming licenses, taxicab medallions, cable franchises, airline route authorities, contracts to manage investments of mutual funds, and FCC licenses”³. Contractual customer relationships should also be included in this list, if they are considered renewable intangible assets (we believe they are).

¹ Glossary, Statement 142.

² We note that in the proposed guidance in paragraph 11(d), both the use of the reporting entity’s historical experience and the use of market participants’ assumptions about renewing or extending similar arrangements are ultimately subject to consideration of (and may be overridden by) the intended (expected) use of the asset by the reporting entity and the remaining factors in paragraph 11.

³ From the Project Update on Determination of the Useful Life of Intangible Assets

In terms of transition, according to the proposed FSP, the guidance for determining the useful life of a recognized intangible asset in paragraphs 7–11 of the FSP would be applied prospectively to intangible assets **acquired** after the effective date. In our understanding, that would effectively preclude entities who may be amortizing certain renewable intangibles over shorter useful lives (in accordance with the current requirements in paragraph 11 (d) of Statement 142) to revise the remaining useful lives of such intangibles *prospectively*⁴.

Disclosures

We believe that the proposed disclosure about intangibles with renewal or extension terms in *paragraph 44 (d) of Statement 142* (weighted-average contract period prior to the next renewal and history of renewal) would be useful in assessing the risk of the expected future contractual cash flows.

Since this disclosure is required in the *period of acquisition*, the necessary information should generally be readily available, considering that this type of information is typically used in the fair value measurement of the assets as well. In the case of intangibles that are valued as a group (for example, contractual customer relationships), providing this disclosure may require more analysis, depending on the degree of homogeneity in the group.

We agree that the proposed disclosure about intangibles with renewal or extension terms in *paragraph 45 (c)(1) of Statement 142* (qualitative description of material changes impacting pending renewal or extension) would be useful in gaining insight into key event risks that might affect future cash flows, and would also help in the assessment of the likelihood of an impairment of a recognized intangible.

Since paragraph 45 (a)(3) of Statement 142 already requires a disclosure of “the estimated aggregate amortization expense for each of the five succeeding fiscal years”, it appears that much of the analysis for the purpose of the proposed disclosure 45 (c)(1) for amortizable intangibles would have been completed in conjunction with the above requirement. Therefore, it appears that the implementation costs for this proposed disclosure would not be significant.

For indefinite lived intangibles, the proposed disclosure in 45 (c)(1) may entail relatively more analysis compared to above, but the assessment of any material risk of failure to renew could be carried out in conjunction with attending to the existing disclosure requirements about carrying amounts in paragraph 45 (b) of Statement 142. Further, indefinite-lived intangibles are subject to a fair value impairment test, and in the event of a material change in the likelihood of a pending renewal it is likely that an impairment test would be triggered under paragraph 17 of Statement

⁴ With or without the existence of asset impairment, paragraph 14 of Statement 142 requires a reporting entity to evaluate the remaining useful life of an intangible asset that is being amortized *each reporting period* to determine whether events and circumstances warrant a revision to the remaining period of amortization.

142; moreover, the timing of such test might even precede the timing of the proposed disclosures in paragraph 45 (c)(1).

We question the usefulness of the proposed disclosure about intangibles with renewal or extension terms in paragraph 45 (c)(2). The proposed FSP calls for a disclosure of “the total amount of incremental and direct costs expended for the period to renew or extend the contractual term”. By the time the disclosure in 45 (c)(2) would be made, the renewal costs would be sunk costs that the proposed disclosure may fail to put into proper context, considering that the balance sheet would in most cases reflect amortized past fair values for the intangible assets, which may differ considerably from their current fair values. In other words, there is likely to be a disparity between the measurement bases of the incurred costs and the recognized amounts for the renewable intangible assets. Finally, the usefulness of this proposed disclosure might also depend on the level of aggregation at which the renewal costs are reported and the ability to relate it to specific renewable intangibles.⁵

Gathering information for this proposed disclosure (45 (c)(2)) might be more challenging and more costly for contractual customer relationships, as an example. Acquired customer relationships constitute a closed group (i.e., this intangible excludes new customers from the date of acquisition onwards), and since the composition of this group would change with any actual losses of the customers that comprise it, it might become more difficult to estimate the incremental and direct costs that relate to contractual renewals for what would be a *subset* of the reporting entity’s customer relationships at any given time (a moving target). Further, additional analysis would have to be undertaken to determine the portion of costs that are incremental and are directly related to the renewal or extension of the contract (or contracts in the aggregate). We understand “incremental and direct costs” to relate to costs that would not have been incurred had the renewal or extension of the contract not been carried out.

We agree with requiring any incremental disclosures about, in essence, all recognized renewable intangibles on a prospective basis.

Finally, we would encourage the staff to reconsider providing guidance on the amortization of a recognized intangible asset.

⁵ In theory, the proposed disclosure might be slightly more useful (but much more costly) if the renewable intangibles were required to be reported at current fair value, because in that case, one would be comparing the incremental and direct costs just incurred to renew or extend the intangible with the fair value of that intangible asset immediately upon renewal (in other words, that would provide insight into the merits of the investment decision to renew). Another disclosure alternative that focuses on renewal costs would compare the projected renewal (extension) costs for a specific period (or in the aggregate) included in the fair value measurement of the renewable intangible upon initial recognition with the actual renewal (extension) costs incurred in the reporting period. The renewal (extension) costs by period would be available at the time the asset is initially measured and recognized at fair value (or at the time it is subsequently written down to fair value in an impairment test), but would then need to be continuously tracked against the actual renewal (extension) costs, which may become costly in a situation in which the renewable intangibles are large in number, have long lives and/or have frequent renewals.

Specific Questions Raised in the FSP

1. What costs would be incurred to implement the proposed FSP?

We have provided responses throughout our letter of comment.

2. Are the transition provisions in the proposed FSP appropriate?

We have provided responses throughout our letter of comment.

3. Does the issuance date in the proposed FSP provide sufficient time for affected entities to understand and apply the requirements of the FSP, which is effective for fiscal years beginning after June 15, 2008?

Considering that for calendar year companies this proposed FSP would come into effect on January 1, 2009, it appears that there would be adequate time for implementation.