

FASB
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Regarding : FAS Intangibles- Goodwill and Other (350)

Comments By: Dr. Joseph S. Maresca CPA, CISA

Colleagues,
Thank you for the opportunity to critique this submission.

Background

The "Equity Premise" is the only one allowed for calculating the carrying amount. The formula for doing this is the Total Assets - Total Liabilities Assigned

Step 1 can be modified for goodwill impairment tests for reporting units with zero or negative carrying amounts. For those units, perform Step 2 for goodwill impairment or the determination thereof if there are adverse qualitative factors which indicate that it is more likely than not that the goodwill impairment exists quantitatively. pp. 1

The purpose of this issuance is to eliminate diversity in practice with respect to the enterprise premise. In the enterprise premise, the net of assets and liabilities exclude liabilities which are part of the capital structure. pp. 2

The major questions presented for review are these.

- (1) Should the equity premise be the only acceptable one?
The enterprise premise presents a potential solution by allowing the deduction of debt at par value, instead of fair value when measuring the reporting unit's fair value.
- (2) Do you concur with the qualitative factors? ***Yes***
- (5) There is impairment when the carrying amount > implied Fair Value and the fair value may be residual. ***I concur with the formulation as listed and supplemented below.***

Step 1

Is (a) < (b)?
(a) fair value of a reporting unit
(b) carrying amount of a reporting unit
If yes, go onto the next step

Step 2

Is (c) < (d)?
(c) implied fair value of goodwill of the reporting unit
(d) carrying amount of goodwill of the reporting unit
If yes, impairment loss is recognized

350-20-35-4 compares the fair value of the reporting unit with its carrying amount including goodwill.

If the carrying amount > 0 and the Fair Value > Carrying Amount then goodwill is not impaired. 35-20-35-6
Thus, step 2 may not be necessary.

350-20-35-8A guidance is followed if the carrying amount of the reporting unit is zero or negative. pp. 6

Goodwill is an intangible asset which provides a competitive advantage, such as a strong brand name. ***The FASB will no longer require goodwill to be written off unless the assets became impaired (which means it becomes clear that the goodwill isn't worth what the company paid) .***

Sample qualitative factors are as follows:

- o significant adverse or changing legal environment
- o an adverse action by a regulator
- o loss of key personnel

Critique

The FASB will no longer require goodwill to be written off unless the assets become impaired (which means it becomes clear that the goodwill isn't worth what the company paid) .

In the trade or business, goodwill is an intangible asset which is a distinguishing factor in providing a competitive advantage. This competitive advantage distinguishes a Parker Pen from a non-brand or generic store brand. People identify the Parker Pen with high quality and have done so for decades. Therefore, this constitutes a strong QUALITATIVE FACTOR as in ***Question (2)*** presented for review. I concur that such qualitative factors can be decisive in impacting a company's goodwill or impairment thereof.

A strong brand name enhances sales because people recall the name when they need a particular product. The value inherent in the strong brand name or recognition thereof is goodwill. The FASB will no longer require goodwill to be written off unless there is a significant impairment.

Examples of a significant impairment are an adverse or changing legal environment.

Due to the increasing incidence of lung cancer, smoking has been either banned or eliminated in many , if not most public places. This changing municipal legal requirement is in response to very high costs of treating patients for lung conditions in the public health care systems. This was not the case in America's earlier history. Earlier, smoking was associated with sex symbols and the early American West.

An adverse action by the FDA can toss years of very tedious research work under a Brand Name drug. The drug Avandia has been restricted although not banned due to an association with a number of adverse reactions.

Currently, there are over 13,000 lawsuits in the legal pipeline.

It is marketed by the pharmaceutical company GlaxoSmithKline (GSK) as Avandia and in combination with metformin (Avandamet) or with glimepiride (Avandaryl). Annual sales peaked at approx \$2.+bn in 2005- 2006. There was a decline after reports of adverse reactions. The drug's patent expires shortly. The expiry of the patent means that exclusive licensure of the drug will not be permitted unless a special extension is granted by the government.

The uniqueness of drug patents constitutes a *difficult intangible* for valuation purposes. To meet the uniqueness test legally, certain conditions must be present in the demonstrated testing of the drug in the preferred mode of operation. i.e. EXAMPLES

- o The drug or cocktails succeed where others failed like in early AIDS drugs.
- o The formulation successfully solves a problem never before recognized.
- o The formulation solves a problem previously thought to be unsolvable.
- o The formulation omits chemical compositions without losing effectiveness.
- o The formulation provides some clear biological improvement where others haven't.
- o The formulation runs contrary to the teachings of previous drug patents.
- o All related drugs combined could not accomplish the same thing as this drug.
- o The formulation resolves a longstanding or unsolved need.
- o The formulation is in a crowded field where even a small advance means much.
- o The formulation can be assimilated naturally without producing internal crystals or residuals.

Some reports have found that rosiglitazone is associated with a increased risk of heart attacks, but other reports have not found a statistically significant increase. Concern about adverse effects has reduced the use of rosiglitazone despite its sustained impact on glycemic control.

The drug is currently the subject of pending litigation against the company. Over 13,000 have been brought due to the drug. As of July 2010, GSK has agreed to settlements on more that 11,500 of these suits. Thus, the qualitative factors cited above seem to be applicable to the current legal environment. **QUESTION 2**

350-20-35-4 compares the fair value of the reporting unit with its carrying amount including goodwill.

If the carrying amount > 0 and the Fair Value > Carrying Amount then goodwill is not impaired. 35-20-35-6
Thus, step 2 may not be necessary. **I concur.**

A significant adverse change in the regulatory environment can impact intangible assets significantly. Oil platform fires can impact an oil firm's intangible assets significantly due to the action of regulators, the loss of key personnel and significant disruptions due to temporary closure of the applicable facilities subject to repair and inspection. Unilateral expropriations by foreign governments are additional considerations apart from impairment of the intangible assets.

The unwinding of derivatives impacted AIG and its good brand name in the insurance business. Therefore, unexpected adverse events can impact intangible

assets despite profitability in other corporate segments.

Loss of key personnel can happen in all sorts of unanticipated events both manmade, as well as Acts of G-d . i.e.

- o oil platform fires
- o mining shaft accidents

The loss of key personnel can be pivotal to a company's intangible assets with regard to the disruption of ongoing continuing operations and assumptions of the going concern concept. For this reason, ***Advice Giving Systems in artificial intelligence*** are so vital to retaining expertise which is in short supply.