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Ms. Suzanne Bielstein, Director – Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116

Re: Proposed FASB Staff Position No. FAS 142-d “Amortization and Impairment of Acquired Renewable Intangible Assets”

Dear Ms. Bielstein,

We would like to take this opportunity to comment on the Proposed FASB Staff Position No. FAS 142-d “Amortization and Impairment of Acquired Renewable Intangible Assets.” Emerson is a diversified manufacturer of electrical and electronic products with a market capitalization in excess of $30 billion.

Summary

Following is a summary of our comments:

- The guidance regarding the cash flows utilized to determine fair value should be consistent with the guidance for determining the useful life of the intangible asset.
- Customer relationships based on short-term purchase orders should not be valued as intangible assets as they cannot be reliably measured apart from goodwill and cannot be traded or exchanged.
- Customer relationships that must be continuously renewed should not be included within the scope of finite-lived renewable intangible assets.
- Intangible assets should not be amortized based on the relative value of discounted cash flows.

A Simpler Solution

As previously communicated, simplicity is an attribute that should not be overlooked in accounting standards as it is much easier for people to understand and to execute upon. Therefore, we believe that intangible assets should be classified as either finite-lived if they cannot be renewed indefinitely, or indefinite-lived if there is a legal right to renew them indefinitely, and the indefinite renewals are reasonably assured. We would not create another category for “finite-lived renewable intangible assets.”

The stated purpose of this proposal was to address the inconsistencies between paragraph 11(d) of FAS 142 and paragraph B174 of FAS 141. We believe a simpler solution for this issue is to remove the inconsistencies between FAS 141 and FAS 142. The period of expected cash flows used to estimate the fair value of a finite-lived intangible asset should be consistent with the useful life of the intangible asset. Specifically, the guidance in paragraph B174 of FAS 141 should be amended to agree with the guidance in paragraph 11(d) of FAS 142.
**Scope Clarification**

We are unclear whether intangible assets such as customer relationships, FCC licenses, and trademarks/trade names would be deemed to be finite-lived renewable intangible assets under the proposal. The guidance provided seems to infer that finite-lived renewable intangible assets are established by specific renewal agreements or contracts unlike customer relationships based on purchase orders. We believe FAS 141 contemplated that intangible assets should be accounted for apart from goodwill if they "arise from contractual-legal rights or if they are separable." The long-term contractual relationship evidenced by a supply contract is different from a customer relationship based on very short-term purchase orders. We believe EITF 02-17 set new GAAP (without full due process) by requiring separate capitalization of customer relationships as a result of doing business with purchase orders. Before addressing this proposal, we believe the Board should first re-address whether customer relationships based on short-term purchase orders are contractual rights as intended by FAS 141 and whether these rights should be valued separate from goodwill.

In connection with this proposal, we are concerned that such customer relationships would be considered continually renewed intangible assets with each purchase order received. Such a conclusion would not be operational since each purchase order period (e.g. 30 days or 90 days) would need to be analyzed. We can accept that long-term legal rights may have an identifiable separate value for the duration of those rights at the acquisition date, but renewals should not be assumed where the right to renew must be earned based on future performance. Therefore, customer relationships deemed to be contractual based on short-term purchase orders, as well as any other similar intangibles, should not be considered renewable intangible assets and should be excluded from the scope of this proposed FASB Staff Position.

**Valuation Considerations**

As we have stated in previous comment letters, valuation experts believe they can calculate a value for almost anything. However, they will readily admit that when there is no history or market for exchanges between third parties, the values can and do vary widely. Anytime a cash flow technique is used to carve out the value of an intangible asset that is inseparable from the business, such as customer relationships, the number is very "soft." Valuation experts tend to attribute all the future profits to customer relationships that are not accounted for elsewhere in their models. While we recognize there is more value in having a customer versus not having one, the value allocated to a customer is being significantly overstated. Customer relationships based on short-term purchase orders are renewable only if the business continues to be competitive on price, quality, performance and all other terms and conditions in order to continue receiving orders from their customers. Most of these cash flows should be attributed to goodwill, which is the benefit of all the facets of the business working together (technology, manufacturing operations, distribution, sales and marketing, etc.) to deliver products and solutions to current and future customers, permitting the business to continually evolve, maintain and create new value with changing market dynamics. These "assets" are not tradeable or separable and there is no business reason to attempt to identify a value apart from the business, other than for this accounting exercise.

**Increased Inconsistencies**

We also believe that the proposal creates inconsistencies, especially in regards to the proposed impairment test for renewable intangible assets. We believe the existing model should not be made more complex. Intangible assets should be either amortized and reviewed for impairment consistent with FAS 144 or not amortized and reviewed for impairment, similar to goodwill, consistent with FAS 142. We agree with those Board members who believe that the proposal adds complexity to FAS 142 and who also support the use of an impairment test in accordance with FAS 144. The proposal is inherently creating inconsistencies by requiring certain intangible assets to be amortized over a finite useful life, while at the same time treating...
those same intangible assets like indefinite-lived intangible assets when performing their impairment tests. If a more sensitive impairment test is believed to be needed then the same issue should exist for all of the other long-lived assets being evaluated for impairment under FAS 144.

Further, we do not agree that the relative value of the discounted cash flows method should be used for allocating costs. As stated in Concept Statement No. 5, some expenses, such as depreciation and insurance, are allocated by systematic and rational procedures to the periods during which the related assets are expected to provide benefits. FAS 142 does not require amortizing intangible assets over their useful lives based on the relative value of the cash flows used to value the intangible assets. By allocating the amortization over the initial and renewal periods based on discounted cash flows, the proposal is introducing an inconsistent approach to how other assets are currently amortized and accounted for in financial statements.

Additionally, we believe that the historical cost model is not designed for the proposed approach of allocating the fair value over the time periods of the initial period and subsequent renewal periods. Not only does the cash flow technique result in an initial value that is considered "soft," but it also utilizes various assumptions in order to arrive at the fair value. The various assumptions used to develop a fair value may not reflect the utilization or the decrease in value over the life of the intangible asset, as intangible assets are never expended as projected in a valuation model. The actual cash flows each period will likely vary significantly from the original assumptions used to estimate the fair value. Therefore, we believe that the current predominate approach of amortizing on a straight-line basis should be continued unless some other method is overwhelmingly more representative of the utilization of the intangible asset.

Clearer Guidance

We also have suggestions regarding the examples provided in the Proposed FASB Staff Position. The examples in Appendix C do not clearly indicate whether the amount of amortization during each of the years within the initial period and each of the years within the subsequent renewal periods are on a straight-line or discounted cash flow basis. For example, Example 1 assumes that a company acquires a renewable intangible asset with an initial period of three years and four renewal periods of three years each. In the example, the amortization of the asset and the amortization of the renewal costs are shown in total for the initial period and in total for each of the four renewal periods, (i.e. Initial Period = Yrs 1-3; 1st renewal = Yrs 4-6; etc.). However, the example does not identify what amortization method should be used for each year within each of these periods. More specifically, it is not clear from the example whether the total for the initial period of $248,806 should be amortized on a straight-line basis during this three-year period or if it should be based on each year’s discounted fair value for each year during the period. The same issue exists for what amortization method to use for the renewal costs and the renewal periods. Without providing clearer guidance, there is an increased risk that companies may interpret the guidance differently and thus lead to potential inconsistencies between companies’ disclosures.

Conclusion

In conclusion, we believe that renewable intangible assets should be classified as either finite-lived or indefinite-lived, and the existing impairment tests should be used for each class as appropriate. This approach is the most consistent, the clearest and the easiest for companies to implement. As currently written, the proposal is introducing a new category of intangible assets. A much simpler solution would be to remove the inconsistency between the guidance for determining the fair value and useful life of an intangible asset.
Separately, the Board should re-address whether customer relationships based on purchase orders should be valued apart from goodwill. We do not believe such customer relationships represent contractual legal rights that should be recorded as separate intangible assets.

We appreciate the opportunity to respond to the working draft and trust that our comments will be seriously considered in future Board deliberations on this issue.

Sincerely,

Richard J. Schluter
Vice President & Chief Accounting Officer

cc: Walter J. Galvin
Senior Executive Vice President
& Chief Financial Officer