March 28, 2006

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

Dear Larry:

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to comment on the proposed FASB Staff Position ("FSP") FAS 142-d, Amortization and Impairment of Acquired Renewable Intangible Assets (the "proposed FSP"). FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is the financial reporting technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

CCR does not believe that the proposed FSP resolves the inconsistency between FASB Statements of Financial Accounting Standards ("Statement 141") No. 141, Business Combinations, and 142, Goodwill and Other Intangible Assets ("Statement 142") that was raised to the EITF in Issue No. 03-9, Determination of the Useful Life of Renewable Intangible Assets under FASB Statement No. 142. To the contrary, we believe that the proposed FSP will create additional complexity in the accounting for intangible assets by establishing a new class of intangible assets that has unique amortization and impairment requirements. At a time when preparers, regulators and other constituents are calling for a reduction in complexity we believe the proposed FSP would be a step back in this regard. Accordingly, we do not support the issuance of the proposed FSP.

Instead of pursuing the approach set forth in the proposed FSP, we would recommend that the FASB employ a more limited approach in resolving the inconsistency that was raised in EITF Issue 03-9. Specifically, we support the proposed amended language to paragraph 11(d) in the FSP which replaces the "without material modifications" terminology with a "reasonably assured" concept. We believe, however, that the proposed FSP should further clarify the terms "substantial cost of renewal" in paragraph
II(d) and "reasonably assured". We believe that with the amended paragraph II(d) language and clarification of these terms that this would resolve the perceived inconsistencies between valuation concepts in FAS 141 and useful life concepts in 142 that this project was to address. We do not agree with the development of a new class of renewable intangible asset with amortization and impairment guidance, but rather, we believe the FSP should simply refer to paragraph 12 of FAS 142 for amortization guidance. This limited approach would be sufficient to reduce practice issues present in this area of accounting.

In the event that the Board decides against pursuing the recommendations described above, we believe there are a number of areas where the proposed FSP should be clarified. The most significant of these are the following:

1. **Scope.** We believe that the scope should be clarified, as it is unclear to us which types of intangible assets are covered by the accounting model in the proposed FSP. Specifically, paragraph 7 provides that the proposed FSP applies to finite-lived renewable intangibles that contain legal, regulatory, or contractual provisions that enable renewal of their legal or contractual life. Based on this definition it is unclear to us whether the proposed FSP would apply to the perpetual right to use brands or trademarks acquired in a purchase business combination. While such intangible assets are legally owned by the acquirer, we have interpreted that such intangible assets would be outside the scope of the proposed FSP because they are not renewable, however we are uncertain.

   We are also not sure whether a contractual customer relationship without an explicit renewal provision (e.g. customer contracts with high persistency rates of retention) falls within the scope of the proposed FSP. If the Board does not intend the proposed FSP to apply to intangible assets where the right of renewal is not specified in the written contract, the FASB should clarify this in the final FSP.

   We believe that the proposed FSP would not apply to intangible assets that do not arise from contractual or other legal rights such as customer lists and non-contractual customer relationships. It would be helpful for this to be clarified in the final FSP since the concept of a legal, regulatory or contractual provision could be interpreted broadly to include such intangible assets.

   The proposed FSP does not appear to apply to intangible assets deemed to have an indefinite useful life. However, paragraph 4 of the proposed FSP provides an example indicating that it would apply to broadcast network affiliation arrangements which many in practice have concluded would be indefinite-lived intangible assets based on the guidance provided in Example 4 of Statement 142. The example does not indicate why this intangible would not be classified as an indefinite-lived intangible asset. Therefore, we would recommend the use of a different example or alternatively a more detailed discussion as to why this asset does not qualify as an indefinite lived intangible asset in light of the guidance provided in Example 4 of Statement 142.
2. **Paragraph 11(d) of FAS 142.** In arriving at the fair value of a renewable intangible asset, one would consider expected cash flows from renewal periods that are not necessarily reasonably assured. However, the proposed modifications to paragraph 11(d) would appear to limit a renewable intangible asset’s life to periods where renewal is reasonably assured. In practice, based on analogies to FAS 13 “Accounting for Leases,” the term “reasonably assured” is viewed as a high hurdle – approximately 90% probability. However, based on recent discussions with a representative of the FASB staff, we now understand that the Board may have intended the term “reasonably assured” to be interpreted under a “more likely than not” threshold. We would support a more likely than not threshold because it would result in useful lives for renewable intangibles that more closely approximate the cash flows used in arriving at the renewable intangibles’ fair values. If the Board does intend such a threshold, clarification is needed.

3. **Impairment of Renewable Intangibles.** We believe the introduction of a new impairment model for renewable intangibles is unnecessary and will result in greater diversity in the accounting for intangible assets and create complexity in the accounting model for marginal, if any, improvement in overall financial reporting. Renewable intangible assets within the scope of the proposed FSP are finite-lived intangible assets and therefore should be subject to the same impairment testing as other finite-lived intangibles. If the Board is concerned about unrealistically long amortization periods, we believe this concern can be handled by reminding constituents that paragraphs 14, 16 and 17 of Statement 142 require that amortization periods be evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization or if evidence or changes in circumstances suggest that the carrying amount of the intangible asset may not be recoverable.

CCR also recommends that the final FSP provide guidance regarding the interaction of impairment testing of finite-lived renewable intangible assets with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“Statement 144”). As an example, in the proposed FSP it is unclear whether a renewable intangible asset could be considered the primary asset of an asset group to determine the cash flows used to test recoverability, since the finite-lived renewable intangible asset is subject to a fair-value based impairment test rather than a FASB Statement 144 impairment test.

4. **Amortization of the Intangible Asset.** We do not agree with the proposed method of allocating value of renewable intangibles that is based on the present value of the cash flows. The resulting expense pattern from this allocation methodology will generally front load expense recognition even though the asset contributes the same value over the intangible assets life. Accordingly, we believe that the value associated with renewable intangible asset should be recognized in accordance with paragraph 12 of FAS 142 on an undiscounted basis.
Additionally, it is unclear why a finite lived intangible asset under FAS 144 should be amortized based on undiscounted cash flows while a renewable intangible asset should be amortized based on the present value of the cash flows.

5. Effective Date and Transition. CCR believes that the guidance in this proposed FSP could have a material impact on companies, and recommends that the effective date be changed to the start of the next fiscal year rather than midyear. CCR believes it can be confusing for readers of financial statements to understand and analyze the application of new accounting guidance for only portions of a fiscal year.

In addition to the comments above, we have provided additional comments for the Board's consideration in Appendix 1. Additionally, in Appendix 2 we discuss our responses to the three issues raised by the Board in the "Notice to Recipients."

We appreciate the opportunity to express our views on this matter. Members of CCR will be pleased to meet with the Board and Staff at its earliest convenience to discuss these issues in more depth and to clarify any comments contained herein.

Sincerely,

Lawrence J. Salva
Chair, Committee on Corporate Reporting
Financial Executives International
Appendix 1

1. Future changes in estimates

The proposed FSP does not address changes in estimates, such as changes to the expected timing of future undiscounted cash flows or the inclusion of additional renewal periods and whether a re-allocation of discounted cash flows to the various renewal periods is required in the event of such changes. The Board may wish to clarify this point.

2. Interaction with the guidance in EITF 02-7

It is unclear to us how the guidance in the proposed FSP should interact with the intangible asset unit of accounting guidance included in EITF 02-7 “Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets” (“EITF 02-7”). For instance, some may believe it is appropriate to group similar renewable intangible assets as one unit of accounting if the aggregation criteria included in EITF 02-7 are met for purposes of both amortization and impairment. The Board may wish to give consideration to this issue.

3. Interaction with the guidance in EITF 02-17

EITF 02-17 “Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination” (“EITF 02-17”) requires recognition of intangible assets associated with non-contractual customer relationships. It is unclear if the proposed FSP is nullifying or modifying the guidance in EITF 02-17. We believe that it would be helpful for the Board to clarify the effect, if any, on EITF 02-17.

Appendix 2

Issue 1: The proposed FSP indicates that it would be unusual for information about future cash flows to be unavailable for renewable intangible assets that are within the scope of this proposed FSP at their acquisition date or when an impairment charge is recognized. Do you agree?

We agree with the Board’s conclusions.

Issue 2: The proposed FSP does not provide specific guidance for renewable intangible assets in situations where cash flow information is not available without undue cost and effort because the Board believes that (a) in those unusual situations, other types of valuation information would likely be available to support the estimates needed to comply with the provisions of the proposed FSP and (b) preparers would be capable of using such information in a manner that is reasonable and supportable. Do you believe that specific guidance is necessary?
As indicated in our response to Issue 1 above, we believe that it would be unusual for such cash flow information to not be available to financial statement preparers. As such, we do not believe that additional guidance is necessary.

Issue 3: The Board considered providing guidance on the notion of “substantial cost” of renewal in accordance with paragraph 11(d) of Statement 142; however, based on FASB staff research, it appeared that there is not significant diversity in practice in this area. Do you agree with the Board’s decision not to address this matter? If not, why? What guidance do you believe should be provided?

As noted above, we believe the proposed FSP should be restricted to only amending the wording in paragraph 11(d) of FASB Statement 142 to address the questions surrounding the definitions of “material modifications” and “substantial cost of renewal,” and not the development of a new class of intangible assets with unique amortization and impairment guidance. Accordingly, we believe that guidance should be provided on the notion of “substantial cost”. For example, existing renewable contracts that require future cash consideration in order to renew could be negotiated by the parties to eliminate the cash outlay combined with an adjustment to the underlying pricing associated with the contract, thus removing any substantial cost from the renewable contract and allowing for an increased number of reasonably assured periods of renewal. Absent such guidance, it is our belief that it may be possible for the substantial cost hurdle to be overcome through modifications to the terms of a contractual arrangement.

As such, we believe that the concept of substantial cost should be further clarified in the proposed FSP or the notion of substantial cost should be eliminated from this guidance entirely, with the focus on the concept of material modification.