April 3, 2006

Lawrence W. Smith
Director – Technical Application and Implementation Activities and EITF Chair
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Smith:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the proposed FASB Staff Position (FSP) FAS 142-d, Amortization and Impairment of Acquired Renewable Intangible Assets.

Overall, AcSEC does not believe that the proposed FSP resolves the inconsistency between FASB Statements No. 141, Business Combinations, and 142, Goodwill and Other Intangible Assets, that was raised to the EITF in Issue 03-9, “Determination of the Useful Life of Renewable Intangible Assets Under FASB Statement No. 142.” The inconsistency being the application of paragraph 11(d) of Statement 142 to renewable intangible assets, which often results in a useful life shorter than the period of cash flows used in determining the fair value of the asset in accordance with Statement 141. While we agree that clarification is needed to resolve the inconsistency between Statements 141 and 142, we do not believe the model in the proposed FSP will achieve that goal.

AcSEC believes that the scope of the proposed FSP should be restricted to only amending the wording in paragraph 11(d) of FASB Statement No. 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 amortization and impairment guidance. This limited approach would be sufficient to reduce the practice issues present in this area of accounting, and the wording developed by the EITF Working Group may be helpful as a starting point. If the FASB believes a new class of intangible assets, which was not envisioned during the FASB Statement No. 142 discussions, is needed, then AcSEC believes the issue should be handled in a broader context than an FSP.

The creation of a new class of intangible assets with an accounting model distinctly different from similar intangible assets will create new practice issues without completely addressing the original question. FASB Statement No. 142 discusses three types of assets acquired or recognized in a business combination: goodwill, intangible assets subject to amortization (finite useful life), and intangible assets not subject to amortization (indefinite useful life). AcSEC does not feel it is necessary or appropriate for the proposed FSP to create a new class of intangible asset (finite-lived renewable intangible asset) with its own unique amortization methodology. If the FASB believes a new amortization methodology is necessary, then AcSEC recommends that the FASB
comprehensively evaluate whether this new amortization method should be applied to other assets, not only those intangible assets with renewal provisions.

The proposed model attempts to reduce the impact of the aforementioned inconsistency through the use of cash flow information used in the initial valuation to attribute value to the initial term and renewal periods. We do not believe that attribution of value based on discounted cash flow information is always appropriate. In some cases, renewable intangible assets provide equal value over the various periods of the contractual term of the arrangement. Application of the proposed accounting model to a narrow class of assets will reduce financial statement clarity and may result in less useful financial information to financial statement users. AcSEC also believes that the proposed FSP inappropriately determines that impairment testing for the finite-lived renewable intangible assets should be subject to a fair-value based impairment test similar to the model used for indefinite-lived intangible assets. AcSEC believes that this change to a different method will potentially create confusion in the application of impairment testing of renewable intangibles. As such, the inconsistency created by testing these amortizing intangible assets using a different method outweighs any benefit derived from this testing approach.

In addition to the major issues identified above, other practice issues are discussed below our response to the three issues raised by the Board.

As noted above, AcSEC believes that the proposed FSP should address only the problematic wording in paragraph 11(d) of FASB Statement No. 142. In addition, AcSEC does not believe that paragraph 12 of Statement 142 requires modification, nor are proposed paragraphs 15 and 15A necessary. However, if the FASB continues with the guidance in the proposed FSP, then AcSEC would note the following:

Issue 7: 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?

AcSEC believes that prior to addressing the question raised in Issue 1, the FASB should have asked readers to comment on:

1. Whether cash flows appropriately reflect the pattern of consumption of the economic benefits of the renewable intangible assets and
2. If the answer is yes, should discounted or undiscounted cash flows be used.

If the FASB believes it has sufficiently resolved these issues, then AcSEC requests that an explanation describing the process in coming to those conclusions be included in the Basis for Conclusions so readers can fully understand how to apply the guidance. AcSEC also does not believe it is helpful to readers to embed perceived accounting guidance, such as the use of discounted cash flows for amortization, in the Basis for Conclusions.

Based on the current proposed guidance, it is not clear to AcSEC that the present value of future cash flows in each period accurately reflects the pattern of consumption of the economic benefits of the renewable intangible assets. AcSEC recommends that the Board reconsiders its proposed amortization methodology for finite-lived renewable intangible assets.
In reference to the question raised in Issue 1, AcSEC believes that future cash flow information for renewable intangible assets should generally be available; although there are concerns that private or small companies may have greater difficulty in obtaining future cash flow information at such a low level due to resource constraints.

**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 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?

AcSEC does not feel that specific guidance is necessary for situations in which cash flow information is not available without undue cost and effort as those situations should be minimal. AcSEC does believe that additional guidance in other areas, such as impairment testing and substantial cost, should be provided in an attempt minimize potential implementation issues.

**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?

AcSEC recommends that guidance be provided on the notion of “substantial cost” of renewal. Although there currently may not be significant diversity in practice, AcSEC believes that it continues to be an inconsistency between the guidance in FASB Statements No. 141 and No. 142; and it would be beneficial to provide guidance.

AcSEC also believes that the proposed change in paragraph 11(d) of Statement 142 (change from “renewal can be accomplished without material modifications” to “renewal is reasonably assured”) may result in an increase in the number of assets classified as indefinite lived. This change in guidance will result in increased emphasis on the meaning of “substantial cost.” As a result, we believe that guidance on what constitutes substantial cost should be provided.

**Other Comments**

**Scope**

1. We believe the proposed FSP, as drafted, may increase the number of intangible assets classified as indefinite-lived. It is unclear whether this was the Board’s intent; however, we believe that removal of the material modification language in paragraph 11(d) may result in an increase in the number of intangible assets that are determined to be perpetually renewable. While we do not disagree with the assignment of an indefinite life to assets that are perpetually renewable, we believe it would be helpful if the Board were to state whether this was their intent in the basis for conclusions.
2. The proposed FSP is unclear with regard to the types of intangible assets that may be included in its scope. Specifically, it is not clear whether intangible assets for which a right of renewal is not explicit (e.g., customer related intangible assets) are included in the scope of the proposed FSP. It is our understanding that current practice does not view a lack of specific renewal provisions as precluding the attribution of value beyond the initial contractual term. As a result, we believe that many financial statement preparers would determine that assets of this nature are included in the scope of the proposed FSP. This lack of clarity may result in additional diversity in practice. Further, we are unsure how the proposed FSP should be applied to intangible assets of this nature, specifically with regard to the number of renewal periods that should be included and how to assess impairment for these types of assets.

Renewals

1. The proposed FSP is unclear as to the meaning of “each future renewal period” for allocation of the fair value of the renewable intangible asset, in the second sentence of proposed paragraph 15A of FASB Statement No. 142. AcSEC recommends that the FASB clarify if each subsequent renewal or only those renewals that are reasonably assured (as referenced in revised paragraph 11(d) of Statement 142) should be included in the allocation of the fair value of the renewable intangible asset.

Interaction with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets

1. AcSEC recommends that the final guidance clearly state the intended 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. 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 No. 144 impairment test.

Effective Date and Transition

1. AcSEC recommends that the guidance be applied prospectively to newly acquired renewable intangible assets and preexisting renewable intangible assets that are renewed after a specified date, but also applicable upon modification of any existing contracts (similar to the guidance in FASB Interpretation No. 45). AcSEC believes it would be appropriate to apply the guidance in the proposed FSP to any modified existing contract, as the modification could be the equivalent of acquiring a new contract.

2. AcSEC 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. AcSEC believes it can be confusing for users of financial statements to understand and analyze the application of new accounting guidance for only portions of a fiscal year.
Appendix C: Example 2

1. AcSEC recommends that the FASB provide a more realistic example of the application of the proposed guidance, and include practice issues (such as how an impairment charge is calculated) that will arise due to the implementation of the proposed model. AcSEC also recommends that the FASB include a footnote on the examples stating that implementation guidance on amortization methodology used in the examples will not be provided in the FSP.

2. It is our understanding that current valuation methodologies include a termination point after which no additional cash flows are attributed to discrete renewal periods, rather a terminal value is inserted. It would be helpful to include an example that clarifies how value should be attributed to discrete renewal periods available beyond the valuation terminal value.

Airline - International Route Authorities

1. As a result of AcSEC's discussion on accounting issues within the AICPA Audit and Accounting Guide for Airlines, we have observed that Example 6 in Appendix A of FASB Statement No. 142 may be inconsistent with the guidance in the proposed FSP. AcSEC requests that the final guidance address the interaction with the example in Statement 142, which indicates that international route authorities are indefinite-lived intangible assets.

Representatives of AcSEC are available to discuss our comments with the Board members and staff.

Yours truly,

Ben Neuhausen, Chair
Accounting Standards Executive Committee

David Morris, Chair
Renewable Intangible Assets Task Force