MINUTES

To:	Board Members
From:	Business Combinations: Applying the Acquisition Method Team (Rhine x 296)
Subject:	Minutes of the September 20, 2006 Board Meeting
Date:	September 21, 2006
cc:	FASB: Bielstein, Smith, MacDonald, Bossio, Tamulis, Posta, Vessels, Bennett, Rhine, Todorova, Glotzer, Lapolla, Polley, Gabriele, Sutay, Carney, Allen, FASB Intranet; IASB: Leisenring, Upton, Hickey, Teixeira, Buschhueter, Quiring

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topics:	Intangible assets
Basis for Discussion:	Board Memorandum No. 25
Length of Discussion:	8:00 to 8:45 a.m.

Attendance:

Board members present:	Batavick, Herz, Linsmeier, Seidman, Trott, and Young
Board members absent:	Crooch
Staff in charge of topic:	Tamulis
Other staff at Board table:	Bielstein, Teixeira, Vessels, Bennett, and Rhine
IASB participants:	Buschhueter, Quiring, Eastman, and Kwiatkowska

Summary of Decisions Reached:

The Board continued redeliberations of its June 2005 Exposure Draft, *Business Combinations.* The Board discussed the recognition and measurement of intangible assets acquired in a business combination. The Board:

1. Affirmed that an intangible asset that is **identifiable** (that is, contractual or separable) can be measured with sufficient reliability and should be recognized separately from goodwill.
2. Agreed that an identifiable intangible asset acquired in a business combination should be measured at a current exchange value rather than at an entity-specific value.
3. Decided that the final Statement should provide accounting guidance for the subsequent accounting by the acquirer for (a) intangible assets that the acquirer does not intend to use in the traditional sense and (b) intangible assets that will be used for a period significantly less than their economic useful life.

Objectives of Meeting:

The objective of the meeting was for the Board to reach decisions on (1) the measurement attribute for intangible assets acquired in a business combination and (2) whether all **identifiable** intangible assets acquired in a business combination can be measured reliably.

The objectives were met.

Matters Discussed and Decisions Reached:

ISSUE A: RECOGNITION OF IDENTIFIABLE INTANGIBLE ASSETS

1. Ms. Tamulis stated that the staff began its analysis of intangible assets by thinking about why the Board decided in FASB Statement No. 141, *Business Combinations,* that identifiable intangible assets should be recognized separately from goodwill. The Board believed that separate recognition of intangible assets provided more decision-useful information to users of financial statements. The staff asked some financial statement users on the IASB's Analysts' Representative Group and the FASB's Business Combinations Resource Group

whether separate recognition provides better information and whether they treat intangible assets differently from goodwill. Financial statement users provided mixed feedback on the usefulness of separate recognition for intangible assets. Some users agreed that the separate recognition of intangible assets provided better information to users of financial statements and noted that in their analyses they treat intangible assets differently from goodwill. Other users stated that the information provided by recognizing intangible assets separately from goodwill might be useful in some, but not all, circumstances. Those users identified reliability and the costs of separate recognition of intangible assets as concerns. Several users stated that in their analyses they do not treat separately recognized intangible assets differently from goodwill.

2. Ms. Tamulis noted the staff believes that identifiable intangible assets have economic characteristics that are different from the economic characteristics of goodwill. Additionally, because some users find separate recognition of intangible assets to be useful information, the staff supports recognizing identifiable assets separately from goodwill because it improves the decision usefulness of financial statements.

3. The Board affirmed that identifiable intangible assets should be recognized separately from goodwill (assuming that there is a relevant and reliable measurement attribute). Messrs. Trott and Batavick noted that intangible assets are often of significant drivers behind acquisitions and that financial statements should reflect that value. (All Board members agreed.)

ISSUE B: MEASUREMENT OF INTANGIBLE ASSETS

4. The next issue relates to whether a **current exchange value** or an **entity-specific value** should be used to measure identifiable intangible assets. Ms. Tamulis noted that the staff is consciously using the term *current exchange value* rather than *fair value* because the Board has not yet debated whether the individual assets and liabilities should be measured at fair value, which is an exit value or an entry value. The Board will have that debate next month. So until

then, the staff is using the term *current exchange value* to mean a current market value rather than an entity-specific value.

5. Ms. Tamulis explained that this question is brought to the Board because some Board members indicated, in recent discussions in the FSP project on measurement of nonfinancial assets and nonfinancial liabilities, that they do not believe that a current exchange value is the most appropriate measurement attribute for intangible assets. Those Board members suggested they might prefer an entity-specific measurement. Ms. Tamulis asked if the Board would like the staff to explore the use of entity-specific measurements for intangible assets acquired in a business combination.

6. The Board affirmed that the current exchange value should be used to measure all identifiable intangible assets. Mr. Linsmeier noted that any difference between current exchange value and entity specific value is most appropriately reflected in goodwill. Furthermore, the guidance in Level 3 of the fair value hierarchy would provide guidance for the use of entity-specific inputs when no market data is available. (Four Board members agreed; two did not (RHH, DMY).)

7. Messrs. Herz and Young did not agree that the current exchange value should be the only measurement attribute for identifiable intangible assets. They believed an entity-specific value should be permitted on the basis of relevance and reliability when market data is not available.

8. Ms. Tamulis noted that constituents expressed concern about a lack of guidance related to the subsequent measurements of intangible assets that an entity does not intend to use or will use for a period significantly less than those intangible assets' economic useful life. The staff believes that based on the frequency constituents have asked for guidance in this area, the Board should provide such guidance in the final Statement on business combinations.

9. The Board agreed that additional guidance should be provided. Mr. Linsmeier, however, expressed some reservation about the level of specificity that might be provided by the additional guidance. Mr. Batavick suggested that examples may be the best method to provide additional guidance without developing a set of rules.

ISSUE C: MEASURING THE CURRENT EXCHANGE VALUE

10. Ms. Tamulis stated that Statement 141 and IFRS 3, *Business Combinations,* differ with respect to the reliability of measurement threshold for intangible assets. In Statement 141, the FASB used **identifiably** as the reliability of measurement threshold (that is, if an intangible asset is contractual or separable, the FASB presumed that it could be measured reliably). In contrast, the IASB believed that there could be a class of identifiable intangible assets that could not be reliably measured. Therefore, in IFRS 3, an intangible asset must be identifiable **and** reliably measurable to be recognized separately from goodwill. The business combinations Exposure Draft sought to resolve that difference by adopting the Statement 141 approach.

11. Ms. Tamulis noted that question 16 of the business combinations Exposure Draft asked constituents if they believed that an identifiable intangible asset can always be measured with sufficient reliability. Although views were mixed, the majority of respondents did not believe that all identifiable intangible assets could be measured with sufficient reliability. In reviewing the comments, the staff noted that some of the examples given would not have met the identifiablity threshold. For other examples, valuation experts maintained that those intangible assets could be measured reliably. As a result, the staff believes that Level 1, 2, or 3 inputs will always be available to measure identifiable intangible assets.

12. The Board agreed that an identifiable intangible asset can always be measured with sufficient reliability because Levels 1, 2, or 3 inputs of the fair value hierarchy will always be available to measure identifiable intangible assets.

Additionally, the Board agreed, subject to review of a draft of the final Statement, to provide additional guidance for identifiable intangible assets that are not measurable on their own but can be measured as a part of a larger group of assets. (All Board members agreed.)

Follow-Up Items:

None.

General Announcements:

None.