

FASB Emerging Issues Task Force

Issue No. 08-7

Title: Accounting for Defensive Intangible Assets

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References:

FASB Statement No. 141, *Business Combinations* (FAS 141)

FASB Statement No. 141 (revised 2007), *Business Combinations* (FAS 141(R))

FASB Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142)

FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
(FAS 144)

FASB Statement No. 157, *Fair Value Measurements* (FAS 157)

FASB Staff Position FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS
142-3)

International Financial Reporting Standards 3 (Revised 2008), *Business Combinations*, (IFRS 3)

International Accounting Standard 38, *Intangible Assets* (IAS 38)

EITF Issue No. 02-7, "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible
Assets" (Issue 02-7)

*** The alternative views presented in this Issue Summary are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

BACKGROUND

1. Prior to the issuance of FAS 157, when an entity acquired a business or group of assets, it typically allocated little or no value to the intangible assets that it did not intend to actively use, regardless of whether another acquirer might have continued to actively use them. For example, if an acquirer purchased a target company with a competing trade name¹ that the acquirer intended to discontinue, the acquirer typically assigned little or no value to the acquired trade name. This approach is based in part on the guidance in paragraph 37(d) of FAS 141, which introduced the notion of assigning less than fair value to an acquired asset that an acquirer intends to use in a way that indicates a lower value to that acquirer. While paragraph 37(d) relates specifically to property, plant, and equipment, some preparers have extended its concept in practice to intangible assets. Furthermore, it is unclear whether FAS 141 requires an acquirer to consider the highest and best use from a market participant perspective when assigning value to intangible assets. The result is that if some market participants would not use the intangible asset, the acquirer would often assign no value to it.

2. However, with the issuance of FAS141(R) and FAS 157, the two Statements work in combination to require that an intangible asset be recognized at a value that reflects the asset's highest and best use based on market participant assumptions. First, paragraph A59 of FAS 141(R) clarifies that while an acquirer may intend not to use an acquired asset or intends to use the acquired asset in a way that is not consistent with its highest and best use, the acquirer is still required to measure the asset at fair value determined in accordance with FAS 157. Second, FAS 157 emphasizes the use of an exit value and market participant assumptions in measuring fair value. As such, an acquirer needs to consider how market participants would value the asset when estimating its fair value.

3. An asset an entity does not intend to actively use has been commonly referred to as a "defensive asset" or a "locked-up asset" because while the asset is not being actively used, it is likely contributing to an increase in the value of other assets owned by the acquiring entity. Paragraph A12(b) of FAS 157 acknowledges the notion of defensive asset value by specifically

¹ Two common examples of defensive assets, trade names and research and development intangible assets, are presented throughout this Issue Summary. The use of these examples is not intended to limit the scope of this Issue to these two types of intangible assets.

indicating that a locked-up asset generates value from its ability to maximize the value of other assets.

4. Upon the effective date of both FAS 141(R) and FAS 157, acquirers will generally assign a greater value to a defensive asset than would have typically been assigned under FAS 141 (that is, if market participants would continue to use the asset or would use the asset defensively). As a result, the FASB staff has received questions from constituents regarding how defensive assets should be accounted for subsequent to their acquisition and whether defensive assets should be considered finite-lived or indefinite-lived intangible assets. In addition, this issue was discussed with constituents in December 2007 and February 2008. Because FAS 141(R) is not yet effective, constituents could only provide their predictions on how the issue will be addressed by preparers after adoption of FAS 141(R). However, there were divergent views among constituents as to how defensive assets should be accounted for subsequent to acquisitions accounted for under FAS 141(R).

5. While the initial measurement of fair value for an acquired intangible asset is based on market participant assumptions, paragraph 11 of FAS 142 stipulates that the accounting for a recognized intangible asset shall be based on the intangible asset's useful life to the reporting entity and shall include the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity.

6. Further complicating the issue is the difference in accounting between a finite-lived intangible asset and an indefinite-lived intangible asset. Whereas an intangible asset with a finite useful life is amortized, an intangible asset with an indefinite useful life is not amortized. Furthermore, if the defensive asset is determined to have a finite useful life, it is evaluated for possible impairment under FAS 144, while a defensive asset with an indefinite useful life is evaluated for possible impairment under FAS 142. Under FAS 144, an intangible asset with a finite useful life will be evaluated for impairment when events or circumstances suggest that the carrying value of the asset (asset group) may not be recoverable. Under FAS 142, however, an intangible asset with an indefinite useful life must be evaluated for impairment at least annually, as well as when events or circumstances suggest that the asset value may not be recoverable. Additionally, for purposes of recognition and measurement of an impairment loss under FAS

144, an intangible asset is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Indefinite-lived intangible assets evaluated for impairment under FAS 142 are evaluated separately unless two or more indefinite-lived intangible assets are deemed to be inseparable from one another in accordance with Issue 02-7 and are combined into a single unit of accounting for impairment testing purposes.

7. While a defensive asset is measured from a market participant perspective, some constituents believe that in many instances, the acquired asset becomes indistinguishable from the acquirer's pre-existing intangible assets. That might be the case when the acquirer obtains additional market share as a result of the removal of a competing trade name. Therefore, some constituents have questioned whether it is more appropriate in certain circumstances to account for the acquired defensive asset as part of the acquirer's pre-existing intangible assets or separately as a standalone asset.

8. A similar issue was addressed in Issue 02-7, which addresses whether separately acquired intangible assets that are collectively used in a manner that suggests they represent one asset should be combined as a single unit of accounting for impairment testing purposes. In that Issue, the Task Force concluded that separately recorded indefinite-lived intangible assets, whether acquired or internally developed, should be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another.

9. The purpose of this Issue is to address the accounting for defensive assets subsequent to initial measurement.

Scope

10. This Issue applies to all intangible assets acquired, including intangible assets acquired in a business combination, in situations in which the acquirer does not intend to actively use the asset but intends to hold (lock up) the asset to prevent its competitors from obtaining access to the

asset (defensive assets).² Defensive assets could include assets that the acquirer will never actively use, as well as assets that will be used by the acquirer during a transition period when the intention of the acquirer is to discontinue the use of the assets.

11. This Issue does not address the identification of market participants, market participant assumptions, or valuation issues associated with defensive assets.

Accounting Issues and Alternatives

Issue 1: Whether an acquired defensive asset should be accounted for as a separate unit of accounting or whether the value of an acquired defensive asset should be added as a component of an existing intangible asset (recognized or not recognized) of the acquirer.

View A: An acquired defensive asset should be accounted for as a separate unit of accounting.

12. Under View A, an acquired defensive asset is considered to be separate and distinct from an acquirer's existing intangible assets and should be accounted for separately. Although an acquired defensive asset is likely to increase the value of other assets owned by the acquiring entity, the asset is an identifiable intangible asset (that is, it is capable of being separated or divided from the entity or arises from contractual or other legal rights) that should be accounted for as a separate unit of accounting and not added to the carrying amount of an acquirer's existing intangible asset. For example, if a trade name is acquired for defensive purposes, proponents of View A believe it would be inappropriate to add the value of the acquired trade name to the carrying amount of the acquirer's existing trade name whether the existing trade name is recognized or not for accounting purposes.

13. Proponents of View A believe that by allowing the value of an acquired defensive asset to be added to an existing intangible asset of the acquirer, assets that may otherwise be considered finite-lived assets on their own would be altered to become indefinite-lived assets if the

² FAS 141(R) provides guidance for accounting for intangible assets acquired in a business combination that are used in research and development activities. It amends FAS 142 to require that those intangible assets be considered indefinite-lived until the completion or abandonment of the associated research and development efforts. However, the staff believes that this guidance was intended to address the accounting for intangible assets that will be used in research and development activities post-acquisition and not research and development intangible assets that the acquirer intends to hold for defensive purposes. If the Task Force reaches a consensus on this Issue, clarifying language may need to be added to FAS 142.

acquirer's existing intangible asset is considered an indefinite-lived asset. Proponents of View A believe that this would be inconsistent with Issue 02-7, which only allows separately recorded intangible assets to be combined into a single unit of accounting for purposes of testing impairment if, among other requirements, the assets all are indefinite-lived assets. Opponents of View A observe that the consensus on Issue 02-7 was reached when the Task Force was unable to amend higher level GAAP, and believe that the Task Force may have reached a different conclusion if it had been able to amend FAS 142, which is within the authority of the current Task Force.

View B: The value of an acquired defensive asset should be added to an existing asset (recognized or not recognized) of the acquirer.

14. Proponents of View B acknowledge that FAS 141(R) requires the value of an acquired intangible asset be measured from the perspective of a market participant and not based on the acquirer's intended use of the intangible asset. However, proponents of View B believe that because an acquired defensive asset is likely to increase the value of other assets owned by the acquiring entity, the value of the acquired defensive asset represents an additional cost of the acquirer's existing intangible asset (whether recognized or not for accounting purposes) and should therefore be added to the carrying amount of the acquirer's existing intangible asset.

15. Furthermore, proponents of View B believe that the acquired defensive asset and the acquirer's existing intangible asset (whether recognized or not for accounting purposes) are essentially inseparable from one another and should be recognized as a single asset. That belief is supported by the indicators that are included in Issue 02-7 for determining whether two or more indefinite-lived intangible assets should be combined as a single unit of accounting for impairment testing purposes, including the fact that the intangible assets as a group represent the highest and best use of the assets.

16. Proponents of View B note that the acquired indefinite-lived intangible asset recorded by an entity may be a single asset or a collection of assets that are operated as a single asset and, as such, are essentially inseparable from one another. That belief is based on the following guidance from paragraph A34 of FAS 141(R):

The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes, and technological expertise. This Statement does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives. [Emphasis added.]

17. Those proponents of View B believe that if it is acceptable to record several assets as a single asset at the date of acquisition, then it logically follows that an entity should be allowed to combine intangible assets (whether recognized or not for accounting purposes) if the assets are essentially inseparable from one another.

18. Opponents of View B believe that it would be inappropriate to add the value of an acquired defensive asset to the carrying amount of the acquirer's existing recognized or unrecognized intangible asset. Opponents of View B believe that the useful life of the defensive asset will often be different from the acquirer's existing intangible asset because of a lack of market exposure or because of competition or other factors. Additionally, opponents of View B point out that if the acquirer's intentions regarding the use of the acquired intangible asset changes and the acquirer subsequently decides to sell the acquired intangible asset, because the value of the intangible asset was added to the carrying amount of the acquirer's existing intangible asset, questions would arise regarding the amount of gain or loss that should be recorded on the sale.

19. To facilitate discussion of this issue, the following examples are provided to illustrate the application of the views described above:

Scenario 1

Company X is a manufacturer of a variety of products and acquires Competitor Y, a manufacturer that sells a product that competes with one of its existing products (Product A). Company X plans to discontinue the sale of Product A within the next six months, but will maintain the rights to the trade name, at minimal expected cost, for defensive purposes. As a result, Company X's existing product will experience an increase in market share. Company X's trade name for its existing product was acquired through a previous acquisition and is considered to be indefinite-lived. Company X estimates that after 15 years of inactivity, Product A's trade name will not generate product loyalty by

consumers, and therefore will no longer add any significant value to its existing trade name.

Evaluation – Separate Unit of Accounting (View A)

Company X would record the trade name as a separate unit of accounting. Refer to Issue 2 below for discussion of Company X's determination of the useful life.

Evaluation – Combine with Existing Intangible Asset (View B)

The fair value of the acquired trade name would be added to the carrying value of Company X's existing trade name. Company X would continue to test its existing trade name, which would include the value of the acquired trade name, for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired in accordance with FAS 142.

Scenario 2³

Company A acquires an in-process research and development (IPR&D) project in a business combination. The reporting entity does not intend to complete the IPR&D project. If completed, the IPR&D project would compete with one of its own IPR&D projects (to provide the next generation of the reporting entity's commercialized technology). Instead, Company A intends to hold (lock up) the IPR&D project to prevent its competitors from obtaining access to the technology. The IPR&D project is expected to provide defensive value, principally by improving the prospects for the reporting entity's own competing technology. Company A anticipates that its technology, once developed, will have a useful life of five years and that acquisition of the IPR&D project will provide two years without competition that it would not have had absent the acquisition.

Evaluation – Separate Unit of Accounting (View A)

Company A would record the IPR&D asset as a separate unit of accounting. Refer to Issue 2 below for discussion of Company A's determination of the useful life.

³ Scenario 2 has been adapted from Example 3 in Appendix A of FAS 157.

Evaluation – Combine with Existing Intangible Asset (View B)

The fair value of the acquired IPR&D defensive asset would be added to the carrying value of Company A's existing IPR&D project, which is zero because internally developed research and development is not capitalized. The asset would be considered indefinite-lived and tested for impairment under FAS 142 until the existing project is completed or abandoned. If the project is completed successfully, Company A would amortize the asset over the estimated life of the new technology and evaluate the asset for impairment under FAS 144. If the existing project is not completed successfully, and if Company A decides to resume research and development activities on the acquired project, the asset would continue to be considered indefinite-lived and tested for impairment under FAS 142 until the project is completed or abandoned. Otherwise, the carrying value of the asset would be charged to expense.

Issue 2: The useful life that should be assigned to an acquired defensive asset if that asset is accounted for as a separate unit of accounting.

View A: The useful life of an acquired defensive asset should equal the period from acquisition to the date the intangible asset is estimated to be "effectively abandoned."

20. Under FAS 142, the accounting for a recognized intangible asset is based on its useful life to the reporting entity, which should include the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity. To assist entities in making an estimate of the useful lives for intangible assets, paragraph 11⁴ of FAS 142 includes a list of factors for an entity to consider. Proponents of View A believe that the most significant of the factors listed in paragraph 11 of FAS 142 relates to the expected use of the asset by the entity. Proponents of View A believe that the asset should no longer be considered used by the entity when the entity has effectively abandoned the asset.

21. Under View A, an intangible asset shall be considered effectively abandoned when either of the following criteria have been met:

⁴ Paragraph 11 of FAS 142 as amended by FSP FAS 142-3, is included in Appendix 08-7A in its entirety.

- The intangible asset is expected to no longer add any significant value to the other assets (those recognized or not recognized) of the reporting entity, or
- The reporting entity effectively surrenders, relinquishes, or waives any claim to, right to, or interest in the intangible asset because the use of the intangible asset by a third party would not result in significant damage to the reporting entity's operations.

For example, developed technology acquired for defensive purposes may no longer add any significant value to the other assets of the reporting entity, and would be considered effectively abandoned, when new technology that replaces the reporting entity's existing technology is introduced. However, the reporting entity may determine that the developed technology asset has been effectively abandoned prior to the introduction of the new technology in the marketplace. This situation could occur if the development of the new technology has led the reporting entity to conclude that the acquired technology would no longer have value to a third party.

22. Proponents of View A believe that this view is consistent with FAS 144, which requires a long-lived asset that will be abandoned to be accounted for as held and used until it is disposed of, which is defined in FAS 144 as the point in time when it ceases to be used. Proponents of View A believe that a defensive asset is being used for defensive purposes and does not cease to be used until one of the criteria noted above is met.

23. Proponents of View A believe that it would be inconsistent with the principle of View A and paragraph 12 of FAS 142 for an intangible asset to be written down or off in the period of acquisition unless the intangible asset becomes impaired during that period.

24. Under View A, an intangible asset may be considered to have either an indefinite or a finite useful life. Proponents of View A believe that because of a lack of market exposure or because of competitive or other factors, it would be rare for a defensive asset to have an indefinite life. For example, if an entity is not investing in promoting a trade name, proponents of View A believe that it is likely that the trade name will eventually cease to add any significant value to the reporting entity's other assets and, thus, would not be considered indefinite-lived.

25. Furthermore, proponents of View A believe that it would be rare for an acquired intangible asset to be assigned no useful life, which would result in the expensing of the intangible asset

immediately following the acquisition. Proponents of View A believe that if a defensive asset truly had value to a market participant, a reporting entity would either use the intangible asset defensively, and thereby preclude the market participant from using the intangible asset, or monetize it by way of selling, renting, or licensing the asset to a market participant.

26. Opponents of View A believe that the criteria for determining whether an acquired defensive asset has been effectively abandoned are highly subjective in nature and would be difficult to apply. Because defensive assets typically do not generate direct cash flows, but indirectly contribute to the cash flows of the other assets of the reporting entity, it may be difficult to reliably predict the point in time when the defensive asset is no longer adding significant value to the reporting entity or would no longer be of value to a third party.

View B: The useful life of an acquired defensive asset shall be determined based on the acquirer's active use of the asset.

27. Proponents of View B point out that the first factor to be considered by an acquirer in determining the useful life of an intangible asset is the expected use of the intangible asset by the acquirer. Proponents of View B believe that FAS 142 only intended for the period of use to include those periods in which the intangible asset was being actively used by the reporting entity and not those periods where the intangible asset was being held for defensive purposes.

28. Therefore, proponents of View B believe that the full fair value of an acquired intangible asset that the acquirer never intends to actively use should be charged to expense immediately following the acquisition. If the acquirer's plan of acquisition requires a period of time to transition away from the use of the acquired intangible asset, the period of active use shall include only the period of transition. The useful life of all other acquired intangible assets shall be determined based on the active use of the intangible asset by the acquirer and shall not include periods in which the intangible asset is being held for defensive purposes.

29. Opponents of View B believe that this view is inconsistent with paragraph 11(b) of FAS 142, which requires that the useful life of an intangible asset include the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the entity. The active use of an acquired defensive asset only includes the period the asset is directly

contributing to the cash flows of the entity. Therefore, opponents believe that View B ignores the requirement in paragraph 11(b) to consider the period of indirect cash flows. Also, if the acquirer never intends to actively use the asset or plans to discontinue use of the asset shortly after acquisition, View B could result in a significant charge to expense immediately after acquisition or shortly thereafter. View B opponents believe that such a charge does not appropriately reflect the economics of the transaction in which the acquirer obtains a continuing benefit from the defensive intangible asset.

View C: The useful life of an acquired defensive asset shall be determined based on the estimated useful life of an existing intangible asset (recognized or not recognized) of the acquirer to which the acquired defensive asset adds value.

30. Proponents of View C believe that although an acquired defensive asset is separate and distinct from an acquirer's existing intangible assets and should be accounted for separately, the useful life of the acquired defensive asset is directly related to the useful life of the acquirer's existing intangible assets (recognized or unrecognized) to which the defensive asset adds value. For example, when an acquirer obtains additional market share as a result of the removal of a competing trade name or developed technology the defensive asset would continue to contribute to the value of the existing intangible asset as long as the existing trade name or developed technology contributes to the cash flows of the entity.

31. Under View C, an intangible asset may be considered to have either an indefinite or a finite useful life depending on the useful life of the acquirer's existing intangible asset to which the defensive asset adds value.

32. To facilitate discussion of this issue, the following examples are provided to illustrate the application of the views described above:

Scenario 1

Same fact pattern described under the discussion of Issue 1.

Evaluation – Effectively Abandoned (View A)

Because Company X estimates that after 15 years of inactivity Product A's trade name will no longer add any significant value to its existing trade name, a useful life of 15 years would be assigned to the acquired trade name. The trade name would be tested for impairment whenever events or changes in circumstances indicate that the carrying amount or the asset group may not be recoverable in accordance with FAS 144. For purposes of recognition and measurement of an impairment loss under FAS 144, the trade name would be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Evaluation – Active Use (View B)

Because Company X intends to discontinue the active use of Product A in six months, a useful life of six months would be assigned to the acquired trade name. The trade name would be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable in accordance with FAS 144.

Evaluation – Link to Existing Intangible Asset (View C)

Because Company X's existing trade name is considered to be indefinite-lived, the acquired trade name would also be considered to be an indefinite-lived intangible asset. Company X would test the acquired trade name for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired in accordance with FAS 142. Company X would evaluate the acquired trade name and its other indefinite-lived intangible assets under Issue 02-7 to determine if any of the assets should be combined into a single unit of accounting for purposes of testing impairment. If they are operated as a single asset and, as such, are essentially inseparable from one another, they would be combined into a single unit of accounting for impairment testing purposes.

Scenario 2

Same fact pattern described under the discussion of Issue 1.

Evaluation – Effectively Abandoned (View A)

Because the acquired IPR&D would add value to Company A's technology once development is complete, the acquired IPR&D asset would be considered indefinite-lived and tested for impairment under FAS 142 until the existing project is completed or abandoned. If the project is completed successfully, Company A would amortize the asset over the period of time until the asset is considered effectively abandoned based on the criteria in paragraph 28 and evaluate the asset for impairment under FAS 144. The determination of the point in time the IPR&D asset would be considered effectively abandoned would depend on a number of factors, including the estimated period over which the delayed competition would add value to Company A and plans for future technology. For purposes of recognition and measurement of an impairment loss under FAS 144, the asset would be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Evaluation – Active Use (View B)

Because Company A does not intend to pursue the project, the value assigned to the IPR&D asset would be immediately charged to expense.

Evaluation – Link to Existing Intangible Asset (View C)

The IPR&D asset would be considered indefinite-lived and tested for impairment under FAS 142 until the existing project is completed or abandoned. If the project is completed successfully, Company A would amortize the asset over the estimated life of the new technology. The IPR&D asset would be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable in accordance with FAS 144. For purposes of recognition and measurement of an impairment loss under FAS 144, the IPR&D asset would be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

International Convergence

33. IFRS 3 indicates that for competitive or other reasons, the acquirer may intend not to use an acquired asset, for example, a research and development intangible asset, or it may intend to use the asset in a way that is different from the way in which other market participants would use it. Nevertheless, IFRS 3 requires that the acquirer measure the asset at fair value determined in accordance with its use by other market participants.

34. Furthermore, under IAS 38, an entity is required to choose either the cost model or the revaluation model as its accounting policy. Under the revaluation model, an intangible asset must be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. Revaluations must be made with such regularity that at the balance sheet date the carrying amount of the asset does not differ materially from its fair value. It should be noted that the revaluation alternative is only available for assets with an active market. For example, IAS 38 stipulates that an active market cannot exist for brands, patents, or trademarks because each asset is unique. Under either model, the asset must be classified as either an indefinite-lived or finite-lived asset and accounted for in a manner similar to the accounting treatment under U.S. GAAP.

35. Under IAS 38, an intangible asset is regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. For an asset with a finite life, the useful life is based on (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.

36. Historically under IFRS, acquired trade names have been considered indefinite-lived assets. As a result, there was a belief that after the adoption of IFRS 3, acquired trade names will continue to be considered indefinite-lived assets. However, Example 9 of IAS 38 illustrates examples in which an intangible asset is initially considered to be an indefinite-lived asset upon acquisition but is later determined to have a finite life. In that example, upon the change from an indefinite-lived asset to a finite-lived asset, the intangible asset is tested for impairment and then amortized over its remaining active use. While the IASB has not received any inquiries on this

topic, it would appear that the issue of how to determine the useful life for an acquired intangible asset also exists under IFRS. One of the reasons the IASB may not have received any inquiries on this topic is due to the historical practice of assigning an indefinite life to acquired trade names and the fact that many constituents may not have fully considered the implications of Example 9 of IAS 38.

Effective Date

37. The Task Force is being asked to consider whether this Issue should be effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, in order to coincide with the effective date of FAS 141(R).

Disclosure

38. The disclosure requirements of FAS 142 are included in Appendix 08-7B. If the Task Force concludes that an acquirer should link an acquired defensive asset to an existing intangible asset (View B of Issue 1 or View C of Issue 2), the Task Force is being asked to consider whether incremental disclosures should be required beyond those already required by FAS 142, including a description of the assets being considered together and the estimated useful life assigned to the asset(s).

Appendix 08-7A

AMENDMENTED PARAGRAPH 11 OF FAS 142

Paragraph 11 of FAS 142 as amended by FSP FAS 142-3:

11. The accounting for a recognized intangible asset is based on its useful life to the reporting entity. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. The useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity. The estimate of the useful life of an intangible asset to an entity shall be based on an analysis of all pertinent factors, in particular, the following factors with no one factor being more presumptive than the other:

- a. The expected use of the asset by the entity.
- b. The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate.
- c. Any legal, regulatory, or contractual provisions that may limit the useful life.
- d. The entity's own historical experience in renewing or extending similar arrangements (consistent with the intended use of the asset by the entity), regardless of whether those arrangements have explicit renewal or extension provisions. In the absence of that experience, the entity shall consider the assumptions that market participants would use about renewal or extension (consistent with the highest and best use of the asset by market participants), adjusted for entity-specific factors in this paragraph.
- e. The effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels).
- f. The level of maintenance expenditures required to obtain the expected future cash flows from the asset (for example, a material level of required

maintenance in relation to the carrying amount of the asset may suggest a very limited useful life).

It is common for an income approach to be used to measure the fair value of an intangible asset. In determining the useful life of the intangible asset for amortization purposes, an entity shall consider the period of expected cash flows used to measure the fair value of the intangible asset adjusted as appropriate for the entity-specific factors in this paragraph.

If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term *indefinite* does not mean infinite. Appendix A includes illustrative examples of different intangible assets and how they should be accounted for in accordance with this Statement, including determining whether the useful life of an intangible asset is indefinite. [Footnote references omitted.]

Appendix 08-7B

AMENDMENDED PARAGRAPHS 44 AND 45 OF FAS 142

Paragraphs 44 and 45 of FAS 142, as amended:

44. For intangible assets acquired either individually or with a group of assets, the following information shall be disclosed in the notes to the financial statements in the period of acquisition:

a. For intangible assets subject to amortization:

(1) The total amount assigned and the amount assigned to any major intangible asset class

(2) The amount of any significant residual value, in total and by major intangible asset class

(3) The weighted-average amortization period, in total and by major intangible asset class

b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class

c. The amount of research and development assets acquired and written off in the period and the line item in the income statement in which the amounts written off are aggregated.

45. The following information shall be disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented:

a. For intangible assets subject to amortization:

(1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class

- (2) The aggregate amortization expense for the period
 - (3) The estimated aggregate amortization expense for each of the five succeeding fiscal years
- b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class
 - c. The changes in the carrying amount of goodwill during the period showing separately:
 - (1) The gross amount and accumulated impairment losses at the beginning of the period
 - (2) Additional goodwill recognized during the period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with Statement 144
 - (3) Adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraphs 30 and 30A of Statement 109, as amended
 - (4) Goodwill included in a disposal group classified as held for sale in accordance with Statement 144 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale
 - (5) Impairment losses recognized during the period in accordance with this Statement
 - (6) Net exchange differences arising during the period in accordance with FASB Statement No. 52, Foreign Currency Translation
 - (7) Any other changes in the carrying amounts during the period

(8) The gross amount and accumulated impairment losses at the end of the period.

Entities that report segment information in accordance with Statement 131 shall provide the above information about goodwill in total and for each reportable segment and shall disclose any significant changes in the allocation of goodwill by reportable segment. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, that unallocated amount and the reasons for not allocating that amount shall be disclosed.

Illustration 1 in Appendix C provides an example of those disclosure requirements.