MINUTES

To:	Board Members
From:	Delmonico ext. 393
Subject:	Minutes of the September 6, 2007 Board Meeting; Useful Life and Amortization of Intangible Assets
Date:	September 25, 2007
cc:	Golden, Bielstein, MacDonald, Leisenring, Lott, Tamulis, Cosper, R. Paul, Wyatt, Tully, Roberge, Bossio, Chookaszian, Polley, Gabriele, Klimek, Allen, Intranet

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.

Topic:	Useful Life and Amortization of Intangible Assets
Basis for Discussion:	Board Memorandum No. 3 and Addendum to Memorandum No. 3
Length of Discussion:	9:00 a.m. to 9:30 a.m.

Attendance:

Board members present:	FASB: Herz, Batavick, Crooch, Linsmeier (by telephone), Seidman, Smith, and Young
Board members absent:	None
Staff in charge of topic:	Wyatt and Tully
Other staff at Board table:	Golden, Cosper and Delmonico

Summary of Decisions Reached:

At the September 6, 2007 Board meeting, the Board continued its deliberations on how to resolve the inconsistency between the guidance for determining the useful life for amortization purposes under FASB Statement No. 142, *Goodwill and Other Intangible Assets,* and the periods of cash flows used in determining the fair value of an intangible asset. The Board reached the following decisions:

1. The scope of the project will be limited to providing guidance on the determination of the useful life of intangible assets for amortization purposes.

2. The Board affirmed its previous decision to revise paragraph 11 of Statement 142 to remove the concepts of "material modification" and "substantial cost" and better match the useful life determination for amortization purposes with the factors considered in the intangible asset's fair value measurement. The Board decided to replace the factor in subparagraph 11(d) of Statement 142 with a consideration of an entity's historical experience, if any, in renewing or extending similar arrangements. An entity that does not have historical experience with similar arrangements would consider a market participant's assumptions about renewal or extension for purposes of applying subparagraph 11(d).

3. Existing disclosure requirements in paragraphs 44 and 45 of Statement 142 will be enhanced by requiring an entity to disclose the following:
   a. The weighted-average period to renewal
   b. An entity's history of renewal
   c. Amounts expended to renew or extend the contractual term of an intangible asset
   d. Changes in the likelihood of renewal or extension.

4. The effective date of the proposed changes would be fiscal years beginning after June 15, 2008, with early adoption prohibited. This guidance would be issued in the form of a proposed FSP. For purposes of determining an intangible asset's useful life, the proposed FSP would be applied prospectively to intangible assets **acquired** after the effective date. The Board decided to require the application of the additional disclosure requirements in the proposed FSP to intangible assets **acquired** or **renewed** after the effective date.

5. The Board authorized the staff to proceed to a draft of a proposed FSP for vote by written ballot with a comment period of 45 days.

Objectives of Meeting:

The objectives of the meeting were for the Board to decide on:

1. Whether it wanted to limit the scope of the proposed FSP to the practice issue originally raised by constituents, namely, the useful life determination or provide clarifying guidance on the amortization of intangible assets, renewal costs, and periods of zero/negative cash flows
2. The disclosure requirements for the proposed FSP
3. The effective date and transition for the proposed FSP
4. Whether the Board wanted to proceed to a preballot draft of the proposed FSP with a 45 comment period.

The objectives were met.

<u>Matters Discussed and Decisions Reached:</u>

1. Ms. Wyatt commented that at the July 11, 2007 Board meeting, the Board agreed that the concept of "material modification" should be removed from subparagraph 11(d) of Statement 142. She stated that the Board also agreed that in situations where an intangible asset was originally measured using an income-based valuation technique, the undiscounted cash flows considered in the fair value measurement shall be utilized to assist in the determination of useful life (adjusted for certain entity specific factors, including an entity's historical experience with renewing or extending similar arrangements). Ms. Wyatt stated that part of the Board's rationale for accepting this alternative was that if the periods of cash flows were reliably determinable for valuation and measurement purposes, then they should also be reliably determinable for amortization purposes. The Board agreed at that meeting, however, that this decision could cause implementation questions around the method of amortization. The Board therefore asked the staff to draft alternatives for the method of amortization. In addition to alternatives for the method of amortization, the Board also asked the staff to address renewal costs, disclosures, and transition/effective date.

TOPIC 1: SCOPE

2. Ms. Wyatt indicated that the staff has provided the Board with alternatives for addressing the method of amortization and the accounting for renewal costs.

However, at this meeting the staff asked the Board to reconsider its decision to expand the scope beyond the original issue that the Board was asked to address (that is, the determination of the useful life of intangible assets). She commented that the staff believes that neither amortization (a non-cash charge) nor renewal costs represent significant current practice issues and therefore should not be addressed in this project. In fact, she indicated that the staff believes that raising issues related to the pattern of economic benefit will lead to additional questions with widely divergent alternatives. Further, providing guidance on these divergent alternatives, in the staff's opinion, would create unnecessary complexity, and would delay the resolution of a current practice issue. Therefore, the staff recommended that the proposed FSP should address only the determination of the useful life of intangible assets. Ms. Wyatt commented that if the Board agrees with the staff's recommendation, then the staff proposes that paragraph 11 of Statement 142 be modified as shown in the addendum to the Board memo. The Board unanimously agreed with the staff's recommendation. (All Board members agreed.)

3. Mr. Smith recalled that at one point the EITF was going to discuss amortization using the pattern of economic benefit and the accounting for amortization during periods of negative cash flows. He questioned why the staff was recommending the Board not address these issues when they had already been raised as practice issues. Ms. Wyatt commented that although the pattern of economic benefit and the accounting for amortization during periods of zero/negative cash flows were practice issues at one point, they are no longer practice issues. She commented that significant diversity in practice no longer exists and as a result the project was dropped from the EITF's agenda. She stated that the staff had reached out to constituents as part of this project and found that there were no significant practice issues in applying the pattern of economic benefit. She noted that constituents indicated that guidance was not required. Therefore, the staff is recommending that the Board not provide guidance on these issues.

4. Ms. Seidman commented that at the last Board meeting, the Board had asked the staff to address these issues as part of this project. She believes that based on the staff's

findings subsequent to that Board meeting, it is appropriate to reduce the scope of the project. She believes that the Board has an opportunity to simplify the accounting literature and reduce complexity by limiting the scope of the proposed FSP. She commented that the guidance the Board had asked the staff to develop could be applied by analogy based on the circumstances. Further, addressing these issues in this type of a narrow scope project could raise questions as to their applicability in a broader context. Therefore, Ms. Seidman indicated that she would prefer to scale back the scope of the project to the practice issue raised by constituents, namely, the useful life determination for amortization purposes.

5. Ms. Wyatt asked if the Board agreed with the staff's proposed modifications to paragraph 11 of Statement 142. Mr. Young questioned why the staff had recommended a market participant approach after looking to an entity's historical experience. He believes that there still appears to be a disconnect between FASB Statement No. 141, *Business Combinations*, which takes a market participant approach and what the staff has recommended in the revision to paragraph 11(d) of Statement 142. Mr. Golden commented that while Statement 141 does take a market participant approach, Statement 142 takes an entity specific approach by design. He stated that an entity should amortize an intangible asset based on its use and not based on the use of market participants. Mr. Golden noted that the reason the staff had included the market participant language in paragraph 11(d) of Statement 142 was so that an entity would not be prohibited from amortizing an intangible asset over a longer life just because it had no prior experience in renewing a similar intangible asset.

TOPIC 2: DISCLOSURES

6. Mr. Tully stated that the staff believes that some additional disclosures on intangible assets with renewal or extension terms are necessary to provide users with insight into key event risks, such as the loss of customers or licenses, which may or may not result in future cash flows. Therefore, the staff is recommending that paragraphs 44 and 45 of Statement 142 be amended to require the disclosure of the weighted-

average initial contract period and the entity's history of renewal by major intangible asset class. Mr. Tully further commented that for intangible assets with renewal or extension terms (both explicit and implicit), the staff would suggest disclosing the renewal costs including the line item in the income statement and balance sheet where the amount is aggregated. Finally, he indicated that the staff suggests providing a qualitative description of the likelihood of renewal for contracts with renewals within the next fiscal year by major intangible asset class.

7. Mr. Tully then stated that the staff believes that these additional disclosures, coupled with the existing requirement to disclose the amount assigned to major intangible asset classes and the weighted-average amortization period by major intangible asset class, will enable users to assess the value attributable to renewal periods without requiring disclosures that may be burdensome to preparers.

8. Mr. Linsmeier questioned the relevance of the proposed additional disclosure in subparagraph 44(a) of Statement 142 which requires the disclosure of the weighted-average initial contract period and the entity's history of renewal by major intangible asset class. Specifically, he questioned the relevance of the disclosure information in situations where an intangible asset had an initial contract period, had previously been renewed, and was currently entering into a new renewal. Mr. Golden commented that the purpose of the disclosure was to highlight how much of the value assigned to that intangible asset related to the post-current contract period. Mr. Golden indicated that the staff will address Mr. Linsmeier's concerns during the drafting of the proposed FSP.

9. Ms. Seidman questioned the purpose of the proposed additional disclosure in subparagraph 45(c)(2) of Statement 142, namely, the qualitative description of the likelihood of renewal. She commented that she understood that the purpose of this disclosure was to try and help financial statement users forecast the likely changes in the original projection of renewal. Ms. Seidman indicated that she believes that this disclosure might be more useful if it were combined with subparagraph 45(a)(3) of Statement 142, which projects amortization expense. She commented that if the five

year projection of amortization expense disclosed the extent to which it was affected by changes in renewal estimates that this disclosure would probably be sufficient to meet the needs of users. Mr. Golden commented that the reason for having separate disclosure requirements was because subparagraph 45(a) of Statement 142 only addresses finite-lived intangible assets or intangible assets subject to amortization while the proposed additional disclosure in subparagraph 45(c)(2) of Statement 142 addresses both finite-lived and indefinite-lived renewable intangible assets. If the proposed additional disclosure requirement in subparagraph 45(c)(2) of Statement 142 was combined with subparagraph 45(a)(3) of Statement 142, there would be no disclosure for indefinite-lived intangible assets.

10. Mr. Smith asked what the staff had envisioned by including the language “and the entity’s history of renewal” in the proposed additional disclosure in subparagraph 44(a)(4) of Statement 142. Mr. Tully commented that the staff envisioned some type of qualitative response, but noted that a quantitative response could also be appropriate.

11. Mr. Linsmeier commented that he believed some of the language used in the disclosure requirements could be interpreted to require disclosures beyond what the staff had envisioned and lead to additional complexity. Mr. Golden indicated that if needed, the staff would work on the drafting of the disclosures. He commented that the goal of the proposed disclosures was to highlight the likelihood of renewal and the associated risks without out adding complexity.

12. The Board unanimously agreed with the staff’s recommendations for the additional disclosures requirements with the caveat that its agreement was subject to final drafting by the staff. (All Board members agreed.)

TOPIC 3: EFFECTIVE DATE AND TRANSITION

13. Mr. Tully stated that the staff recommends an effective date for fiscal years beginning after June 15, 2008 with early adoption being prohibited. He further stated that in accordance with the Board’s effective date guidelines, the Notice for Recipients will indicate when the staff expects to finalize the proposed FSP and ask whether the

proposed effective date provides sufficient time for affected entities to understand and apply the requirements of the FSP.

14. Mr. Tully then commented that the staff is also recommending that the proposed FSP be applied prospectively to intangible assets acquired after the effective date of the FSP. While not included in the Board memo, he indicated that the staff would further recommend making the proposed FSP applicable to intangible assets renewed after the effective date of the FSP to ensure that renewed intangible assets have the same disclosure requirements as newly acquired intangible assets.

15. Mr. Linsmeier questioned whether the transition requirements of the proposed FSP should require retrospective application rather than prospective application. He commented that for intangible assets acquired prior to, but renewed after the effective date, the remaining unamortized amount applied to the renewal period would essentially be zero since the useful life of the intangible asset would be determined under the existing requirements in Statement 142. Mr. Golden stated that there may be some intangible assets with additional renewal periods remaining and therefore disclosures upon renewal would be useful. He further stated that if the unamortized amount is zero at the time of the renewal, then there would be nothing for the entity to disclose.

16. Ms. Seidman commented and Mr. Herz clarified that one way to address this issue is to make the disclosure requirements apply to intangible assets that have been acquired or renewed after the effective date while making the change in useful life apply to intangible assets acquired after the effective date of the proposed FSP. The Board unanimously agreed that the effective date of the proposed FSP would be fiscal years beginning after June 15, 2008, with early adoption prohibited. Further, for purposes of determining an intangible asset's useful life, the proposed FSP would be applied prospectively to intangible assets **acquired** after the effective date while the application of the additional disclosure requirements in the proposed FSP would be applied to intangible assets **acquired** or **renewed** after the effective date. (All Board members agreed.)

17. Mr. Tully then asked if the Board wanted to proceed to a preballot draft of the proposed FSP with a comment period of 45 days. The Board unanimously agreed to proceed to a preballot draft of the proposed FSP with a comment period of 45 days. (All Board members agreed.)

Follow-Up Items:

None.

General Announcements:

None.