



LETTER OF COMMENT NO. //

November 22, 2006

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

**Re: File Reference Proposed FSP No. 141-b, 142-e, 144-b, Fair Value Measurements in Business Combinations and Impairment Tests**

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed FASB Staff Position No. 141-b, 142-e, 144-b, *Fair Value Measurements in Business Combinations and Impairment Tests* (the "Proposed FSP"). We understand the Board's intent to clarify existing guidance on measuring the fair value of non-financial assets and liabilities as prescribed by FASB Statements No. 141, *Business Combinations*, No. 142, *Goodwill and Other Intangible Assets*, and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (the "Statements"). While we generally support the Board's direction of establishing a consistent and comparable framework of fair value measurements, we do not support the Proposed FSP at this time for the following reasons.

While we recognize that the Proposed FSP states that it does not require application of FAS 157 prior to adoption of that statement, we believe the Proposed FSP will require the application of selected guidance from FAS 157 prior to that statement's adoption. For example, applying the concept of "defensive value" from the Proposed FSP may entail applying other concepts from FAS 157 such as "highest and best use" in relation to the valuation premise.

As indicated in par. 3 of the Proposed FSP, the Board acknowledges that there are practicability exceptions in existing Generally Accepted Accounting Principles ("GAAP") regarding the use of fair value measures but decided not to address those issues in FAS 157. Rather, the Board decided it would address those issues in the future. The use of fair value measures, as defined by FAS 157, is being addressed in the business combinations project. The Board's deliberations on the business combinations project may lead to a conclusion that differs from existing GAAP and the Proposed FSP. It is not clear if the costs of implementing the Proposed FSP are worth the perceived benefits if GAAP were to change in the near future as a result of the business combinations project redeliberations.

Last, there are a number of implementation challenges that will result from the Proposed FSP. Specifically, the concept of defensive value is not well understood by preparers and users and the implications for the acquirer's subsequent accounting should be more fully considered.

**Operational Issues**

While we do not support the Proposed FSP, if the Board proceeds with its issuance, we offer the following comments and recommendations:

***Defensive Value***

Defensive value is not defined and could be interpreted as a new measurement attribute. We recommend the Proposed FSP include a definition of defensive value and describe the relationship between defensive value and fair value.

***"Day Two" Impairment of Abandoned Intangible Assets***

The subsequent measurement and impairment testing (i.e., "day two" accounting) of to-be abandoned intangible assets is not addressed in the Proposed FSP. For example, if at initial recognition an acquirer recognizes a trade name based on its defensive value but does not intend to use the trade name, some have suggested that in the "day two" accounting, the trade name would be immediately impaired under FAS 142 or FAS 144. The Board should consider describing the fundamental principles for assessing impairments of to-be abandoned assets.

***Goodwill Impairment Issues***

The practice of no longer applying entity specific assumptions when measuring the fair value of certain assets and liabilities may magnify potential goodwill impairment charges and it is unclear if that is what the Board intended. For example, when an entity measures the value of an intangible asset based upon management's intended use and a market participant would use the asset differently, the potential difference in value would likely be subsumed into goodwill. Therefore, should that entity perform the second step of the goodwill impairment test under FAS 142 (using the Proposed FSP's guidance and assuming all else being equal), that entity would have to value those intangible assets that were previously deemed to be abandoned, which would reduce the implied fair value of goodwill, and thus leading to a higher impairment charge. The proposed FSP should address transition provisions among the Statements, the Proposed FSP and FAS 157.

***Amendments to Statement 141, 142, and 144***

Paragraphs 3 and 7 of the Proposed FSP state that certain measurement attributes described in Par. 37 of Statement 141 are not fair value measures. Specifically, Par. 37(d)(1) refers to plant and equipment being measured at the current replacement cost. Traditionally, plant and equipment is valued using the Replacement Cost New Less Depreciation ("RCNLD") method of the cost approach which is widely accepted as representative of fair value. If it is the Board's intent to suggest that RCNLD does not represent fair value, the Board should clarify the measurement attribute for property, plant and equipment acquired in a business combination.

The Proposed FSP will be effective until entities adopt FAS 157. However, the Proposed FSP amends paragraphs in the Statements that are not amended by FAS 157, creating inconsistencies. We would be happy to discuss the potential implications of these inconsistencies, as needed.

If you would like to discuss any of these points, please contact John Horan at (973) 236-4997 or Pam Schlosser at (973) 236-5502.

Sincerely,

PricewaterhouseCoopers LLP