



## **Determination of the Useful Life of Intangible Assets**

### **Board Meeting Handout**

**March 19, 2008**

#### **PURPOSE**

The purpose of this meeting is to consider the staff's analysis and recommendation of how to address the comment letters received on the proposed FASB Staff Position (FSP) FAS 142-f, *Determination of the Useful Life of Intangible Assets*.

#### **ISSUE 1: EXAMPLE PROVIDED IN THE PROPOSED FSP**

While drafting the proposed FSP, some external reviewers expressed concern that the modified paragraph 11(d) would “trump” the other factors considered when determining the useful life. To address this concern, the staff included an example in the Exposure Draft to highlight that an entity would still consider its own entity-specific factors even in situations in which the entity had no historical experience with renewing or extending similar arrangements and, thus, considered assumptions market participants would use. However, one respondent in the comment period indicated that the facts in the example are “not consistent with what is typically seen in practice.” Another respondent suggested removing the example entirely to avoid confusion.

The staff has created and distributed two alternative examples for the Board to consider. However, the staff believes that any example could result in the misapplication or misuse of the principle in the FSP because all fact patterns will be unique (and potentially, complex). Additionally, the staff already included language in the proposed FSP to address the trumping concern (the body of paragraph 11 of Statement 142 was amended to indicate that items a–f are “factors with no one factor being more presumptive than the other”). As such, the staff recommends removing the example as it is no longer needed.

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***Question #1 for the Board: Does the Board support the staff recommendation to exclude the example from the proposed FSP? If not, does the Board wish to include the two examples provided in the addendum?***

## **ISSUE 2: DISCLOSURES**

Eleven of the 16 respondents provided comments on the disclosure requirements and either did not entirely agree with required additional disclosures and suggested certain modifications (5 respondents) or recommended that the disclosures be removed from the final FSP (6 respondents). The staff believes that there are three alternatives for the Board to consider:

1. Eliminate all disclosures
2. Retain certain disclosures
3. Retain all disclosures.

The staff believes that the information disclosed in paragraph 13(a) of the proposed FSP, “the weighted-average contract period prior to the next renewal,” will be useful to users if the term “contract” is removed. However, the staff believes that the other disclosures would be (1) redundant with other GAAP (for example AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*), (2) redundant with current disclosure requirements under FASB Statement No. 142, *Goodwill and Other Intangible Assets*, (3) create additional application issues, or (4) simply not be useful. As such, the staff recommends Alternative 2, which would only include a requirement to disclose the modified information in paragraph 13(a) of the proposed FSP. The staff also recommends reinforcing an entity’s disclosure requirements under SOP 94-6 in the final FSP and that such requirement should be evaluated and, if required, disclosed by major intangible asset class.

***Question #2 for the Board: Does the Board agree with the staff’s recommendation on disclosures?***

### **ISSUE 3: TRANSITION**

Nine respondents commented that the guidance for determining the useful life of a recognized intangible asset should be applied prospectively as a change in accounting estimate to **all** intangible assets and not just those **acquired** after the effective date.

The staff originally recommended the proposed FSP only be applied to intangible assets acquired after the effective date because applying the guidance in the proposed FSP to preexisting intangible assets would result in amortization that does not reflect a pattern of economic benefit. Additionally, the Board believed the costs of requiring entities to reassess the useful lives of all intangible assets affected by this FSP may outweigh its benefits.

#### ***Transition for Disclosures (only necessary if the Board chooses either Alternative 2 or 3 in Issue 2)***

The Board previously decided that the disclosure requirements should only be applicable to those intangible assets acquired, renewed, or extended after the effective date because such assets would have been either fully or significantly amortized due to the existing provisions in paragraph 11(d) of Statement 142. However, if the Board decides the guidance on determining the useful life should be applied to preexisting intangible assets, the staff believes the Board should similarly make the disclosure guidance applicable to preexisting intangible assets.

The staff recommends the transition for determining the useful life and disclosure remain the same as what was included in the proposed FSP. The staff believes the cost of applying the FSP to preexisting intangible assets would exceed the benefits. Additionally, the staff notes the disclosure previously recommended (Alternative 2) would only be required at acquisition, so the staff recommends the transition guidance for the disclosures be the same as the transition guidance for determining the useful life.

***Question #3 for the Board: Does the Board agree with the staff's recommendation that the guidance in the final FSP for determining the useful life of a recognized intangible asset should be applied prospectively to intangible assets acquired after the effective date?***

#### **ISSUE 4: EFFECTIVE DATE**

The proposed FSP states that the FSP would be effective for financial statements issued for fiscal years beginning after June 15, 2008, with exceptions for intangible assets (1) acquired in a combination of mutual entities, (2) combinations between not-for-profit (NFP) organizations, or (3) arising from the acquisition of a for-profit business entity by a NFP organization. Five respondents indicated that the effective date should be deferred until fiscal years beginning after December 15, 2008.

The staff recommends delaying the effective date to align with the effective date of FASB Statement No. 141 (revised 2007), *Business Combinations*, and FASB Statement No. 157, *Fair Value Measurements*, related to nonfinancial assets and liabilities, and believes the delay will reduce implementation issues related to the adoption of the final FSP.

*Question #4 for the Board: Does the Board agree that the proposed FSP should be effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years?*

*Question #5 for the Board: Does the Board want to proceed to a preballot draft of a final FSP?*