



November 22, 2006

Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Request to Amend FASB Statement No.142, *Goodwill and Other Intangible Assets*

Dear Mr. Herz:

The Financial Reporting Committee (“FRC”) of the Institute of Management Accountants (“IMA”) and the Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) are writing this letter to request that the FASB reconsider its decision to discontinue its project to amend FASB Statement No. 142, *Goodwill and Other Intangible Assets* (“Statement 142”), to address the inconsistency between the determination of fair value of intangible assets under FASB Statement No. 141, *Business Combinations* (“Statement 141”), and the determination of amortizable lives under Statement 142. CCR and FRC are each the financial reporting technical committee of their respective organizations. The Committees review and respond to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of the Committees and not necessarily the views of FEI, IMA, or their individual members.

We recognize that the Board issued a proposed FSP earlier this year related to the amortization and impairment of acquired renewable intangible assets and that most respondents to that proposed FSP disagreed with the FASB approach. However, the inconsistency between the life to use when determining the fair value of a renewable intangible asset and the subsequent amortization period to use for a renewable intangible asset continues to cause, in our view, various practice issues.

To resolve this inconsistency, we propose modifying paragraphs 11(d), 12, and 14 of Statement 142. We believe this approach is a simple and conceptually sound approach that would address the majority of practice problems that currently exist. In reviewing the comment letters received by the Board in response to the proposed FSP, we believe that there would be support among the Board's constituents to amend paragraphs 11(d), 12, and 14 of Statement 142 as follows:

11(d) ~~Any legal, regulatory, or contractual provisions that enable renewal or extension of the asset's legal or contractual life, without substantial cost, (provided there is evidence to support renewal or extension and renewal or extension can be accomplished without material modifications of the existing terms and conditions). —~~The entity's historical experience, if any, in renewing or extending similar arrangements, regardless of whether such arrangements have explicit renewal or extension provisions. The expectation of renewal periods or extensions in which undiscounted cash flows are expected to substantially diminish or are not reasonably expected to occur should not be considered.

12. A recognized intangible asset shall be amortized over its useful life to the reporting entity unless that life is determined to be indefinite. If an intangible asset has a finite useful life, but the precise length of that life is not known, that intangible asset shall be amortized over the best estimate of its useful life. The method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up.<sup>10a</sup> If that pattern cannot be reliably determined, a straight-line amortization method shall be used. An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period.<sup>11</sup>

<sup>10a</sup>If the economic benefit from an intangible asset is expected to change over time (for example, due to potential or expected modifications to a contractual arrangement in periods beyond the initial contract period), the method of amortization shall be reflective of that pattern of economic benefit.

<sup>11</sup> However, both Statement 2 and Interpretation 4 require amounts assigned to acquired intangible assets that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.

14. An entity shall evaluate the remaining useful life of an intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset shall be amortized prospectively over that revised remaining useful life.<sup>11a</sup> If an intangible asset that is being amortized is subsequently determined to have an indefinite

useful life, the asset shall be tested for impairment in accordance with paragraph 17. That intangible asset shall no longer be amortized and shall be accounted for in the same manner as other intangible assets that are not subject to amortization.

<sup>11a</sup> For example, a change in judgment about the renewal of a contract or the loss of a customer could cause the remaining carrying amount of the intangible asset to be amortized over a short period of time or, in the case of an unexpected loss of a customer, immediately expensed.

We believe this limited amendment to Statement 142 has the following advantages:

- It retains the simplicity of the Board’s “single-asset” model versus the addition of a “renewable” intangible in the Board’s proposed FSP
- Intangible assets would be amortized in a manner that reflects the economic benefits expected from the intangible asset and this approach would preclude artificially lengthening the life of an intangible asset by looking to periods of time in which little or no economic benefit is expected (although not identical, we believe the amortization pattern that results from this approach will be similar to the amortization pattern, modified to use undiscounted rather than discounted cash flows, that would have resulted from the Board’s proposed FSP)
- All finite lived intangible assets would be subjected to impairment testing under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*; thus eliminating the complexity associated with creating a third category of intangible assets
- This approach does not distinguish between different types of intangible assets (renewable intangible, customer-related intangible, and so forth) and thereby eliminates concerns some respondents had with respect to the scope of the proposed FSP.

We acknowledge that this approach might increase the number of indefinite-lived intangible assets. However, we believe the impairment testing for indefinite-lived intangible assets contained in Statement 142 provides an appropriate failsafe against concerns about nonamortization of those intangible assets.

The following are examples illustrating how the proposed accounting would be applied.

#### **Broadcast Network Affiliation Agreement**

Company C operates a television station. On September 1, 20X2, Company C was acquired in a business combination by Company A. Company C has a network affiliation agreement with Company D under which Company C operates the television station as an affiliate of Company D (a major network broadcasting company). The Company D network affiliation agreement is renewable every 2 years and has been renewed or extended on 15 previous occasions. While the

relationship has remained in place for over 30 years, due to the evolution of the industry, many of the terms and conditions (for example, those governing the delivery of programming and pricing) have been subject to modification over time. Company A reasonably expects that it will be required to increase its local programming for the foreseeable future under the Company D affiliation agreement (which will require increased cash outflows to secure the programming) but will receive an increase in revenue sharing from local advertising to offset those costs. Company A does not anticipate any additional costs or changes in the terms and conditions of the contract.

The nature of the historical modifications has not resulted in significant changes to the underlying economics, the overall value of the intangible asset, or the fundamental nature of the right—the right to air network programming and earn a share of advertising revenue thereon. Further, many of the modifications have been made in order to adapt the relationship to fit the needs of both the network affiliate and the network broadcasting company in light of the changing business environment.

In determining the amount to pay for Company C, management of Company A includes forecasted cash flows from Company C's contract with Company D for the next 10 years (after the 10 year period the company believes that the economics will change such that it will not receive significant undiscounted cash flows from the network). Under the accounting model proposed in this letter, the amortization of a contractual intangible asset established would be amortized over the 10 year period. However, pursuant to the current guidance in paragraph 11(d) of Statement 142, the useful life of the agreement could be determined to be 2 years given that the agreement is generally modified every 2 years.

### **Cable Network Affiliation Agreement**

Company A purchases Company B in a business combination. Company B is a cable network (e.g. CNN, ESPN etc..) that has long term contracts with all the large cable companies (e.g. Time Warner Cable, Comcast etc..). These contracts tend to run for 7 to 10 years and are renewed after the 7 or 10 years but since the cable companies are paying the cable networks fees for their programming, there are significant negotiations that take place in determining what amount should be paid by the cable company. For a well distributed cable channel (e.g. CNN, ESPN etc..) it is probable that the contract will be renewed and the negotiation is always about what the rate increase should be. In valuing the agreements between the cable network and the cable company it appears appropriate to take into account expectations about future contract renewals. In fact, in determining the amount to pay for Company B, the valuation that Company A prepares will take into account future probable renewals.

In determining the fair value of Company B, management of Company A includes forecasted cash flows from its contracts with cable operators that continue in perpetuity. Under the accounting proposed in this letter, the contractual intangible asset established would be classified as an indefinite lived intangible asset. However, pursuant to the current guidance in paragraph 11(d) of Statement 142, the useful life of the agreement could be determined to be 7 to 10 years given that the agreement is generally modified every 7 to 10 years.

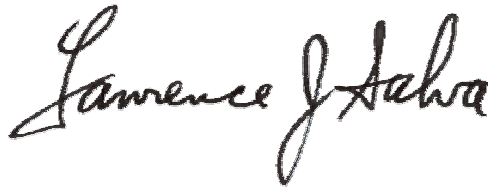
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We appreciate your consideration of our comments and would welcome discussing them with you at any time.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "Pascal Desroches". The signature is fluid and cursive, with the first name "Pascal" written in a larger, more prominent script than the last name "Desroches".

Pascal Desroches  
Chair, Financial Reporting Committee

A handwritten signature in black ink, appearing to read "Lawrence J. Salva". The signature is written in a cursive style, with the first name "Lawrence" being the most prominent part, followed by "J." and "Salva".

Lawrence Salva  
Chair, Committee on Corporate Reporting