Notice for Recipients
of This Proposed FASB Staff Position

This proposed FASB Staff Position (FSP) would amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets.* This proposed FSP would amend the factor in paragraph 11(d) of Statement 142 to allow an entity to consider its own assumptions about renewal or extension of the arrangement. This proposed FSP does not provide guidance on the measurement or amortization of a recognized intangible asset.

The Board invites individuals and organizations to send written comments on all matters in this proposed FSP. Comments are requested from those who agree with the provisions of this proposed FSP as well as from those who do not. Comments are most helpful if they identify the issues or specific paragraph or group of paragraphs to which they relate and clearly explain the issue or question. Those who disagree with provisions of this proposed FSP are asked to describe their suggested alternatives, supported by specific reasoning.

The Board requests that constituents provide comments on the following:

1. What costs would be incurred to implement this proposed FSP?
2. Are the transition provisions of this proposed FSP appropriate?
3. Given this document's comment period, the Board expects to finalize this proposed FSP in the first quarter of 2008. Does this issuance date provide sufficient time for affected entities to understand and apply the requirements of this FSP, which is effective for fiscal years beginning after June 15, 2008?

Responses must be received in writing by January 16, 2008. Interested parties should submit their comments by email to director@fasb.org, File Reference: Proposed FSP FAS 142-f. Those without email may send their comments to "Russell G. Golden, Director of Technical Application and Implementation Activities, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, File Reference: Proposed FSP FAS 142-f." Responses should not be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB website and included as part of the project record with other project materials.

PROPOSED FASB STAFF POSITION

No. FAS 142-f

Title: Determination of the Useful Life of Intangible Assets

Comment Deadline: January 16, 2008

Objective

1. This FASB Staff Position (FSP) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141, *Business Combinations,* and other applicable accounting literature.

All paragraphs in this FSP have equal authority. Paragraphs in bold set out the main principles.

Background

2. Paragraph 11(d) of Statement 142, which addresses renewal or extension assumptions used to determine the useful life of a recognized intangible asset, states that the determination of the useful life shall include consideration of:

> 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).

3. In practice, the useful life of a recognized intangible asset under Statement 142 often is different from the period of expected cash flows used to measure the fair value of the asset under Statement 141 (and other applicable accounting literature) when the underlying arrangement includes renewal or extension terms. In particular, the useful life

under Statement 142 usually is shorter than the period of expected cash flows under Statement 141 (and other applicable accounting literature). That difference may, for example, relate to the level of negotiations involved in renewing or extending the terms of the underlying arrangement and/or implicit renewal or extension terms (that is, renewal or extension terms that are not explicit in the arrangement). The difference is especially pronounced for a longer-lived intangible asset for which the likelihood of renewal or extension is high but the underlying arrangement requires material modifications.

4. Constituents have asked the Board to reconsider whether a difference between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset is justified. In February 2007, the Board added this project to its agenda to address that issue. This project does not provide guidance on the measurement or amortization of recognized intangible assets.

FASB Staff Position

Scope

5. **This FSP applies to recognized intangible assets held by all entities.**

6. An intangible asset may be acquired individually or with a group of other assets. This FSP applies regardless of how the intangible asset is acquired, that is, whether in a business combination or otherwise.

Subsequent Measurement—Determining the Useful Life

7. **In developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset, an entity shall consider its own historical experience in renewing or extending similar arrangements; however, these assumptions should be consistent with the entity's intended use of the asset. 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 the entity-specific factors in paragraphs 11(a)–11(f) of Statement 142.

8. Paragraph 11(d) of Statement 142 precluded an entity from using its own assumptions about renewal or extension of an arrangement where there is likely to be substantial cost or material modifications. Statement 142 included that limitation to prevent an entity from using renewal or extension terms to inappropriately lengthen the useful life of a recognized intangible asset. An underlying presumption in this FSP is that the impairment testing requirements of other applicable accounting literature together with the disclosure requirements of this FSP would sufficiently mitigate that concern.

9. In addition to considering the entity-specific factors in paragraphs 11(a)–11(f) of Statement 142, an entity shall consider its own historical experience or, alternatively, if the entity lacks historical experience, the assumptions that market participants would use consistent with the highest and best use of the asset. Accordingly, this FSP amends paragraph 11(d) of Statement 142 so that an entity is not precluded from using its own assumptions about renewal or extension of an arrangement, even when there is likely to be substantial cost or material modifications.

10. If an entity uses an income approach to measure the fair value of a recognized intangible asset, the assumptions about renewal or extension used to determine the useful life of the asset in accordance with paragraph 11 of Statement 142 shall be consistent with the assumptions about renewal or extension used in that valuation technique. In that situation, in determining the useful life of the asset, the entity shall consider the period of expected cash flows in the valuation model adjusted for the entity-specific factors in paragraphs 11(a)–11(f) of Statement 142. Those entity-specific factors include, but are not limited to, the entity's expected use of the asset and the entity's historical experience in renewing or extending similar arrangements.

11. For a recognized intangible asset, there might continue to be a difference between the useful life of the asset and the period of expected cash flows used to measure the fair value of the asset. However, that difference likely will be limited to situations in which the entity's own assumptions are different from the assumptions market participants

would use. In those situations, it is appropriate for the entity to use its own assumptions because amortization of a recognized intangible asset should reflect the period over which the asset will contribute both directly and indirectly to the expected future cash flows of the entity.

Determining the Useful Life When an Entity Lacks Historical Experience

A newly formed broadcasting division of an enterprise acquires a broadcasting license with an initial term of five years and an implicit renewal option at the end of each five-year period. Considering assumptions a market participant would make, the enterprise uses an income approach to determine that the fair value of the broadcasting license utilizing 15 years of cash flows is $10 million. Based on the enterprise's business plan, the enterprise expects to use the broadcasting license for 10 years and therefore expects to exercise one renewal option.

In applying the guidance in paragraph 11(d) of Statement 142 that requires an evaluation of the entity's historical experience in renewing or extending similar arrangements (or in the absence of such experience, a market participant's assumptions about renewal or extension), the enterprise would first consider its own historical experience in renewing or extending similar arrangements. Because the enterprise lacks historical experience in renewing or extending similar arrangements, the enterprise would consider the assumptions that a market participant would use consistent with the highest and best use of the intangible asset. The enterprise determines that the broadcasting license should have a useful life of 15 years as market participants would exercise 2 renewal options. However, because the enterprise expects to use the broadcasting license for only 10 years, it must adjust the market participants' assumptions for the entity-specific factors in paragraph 11 of Statement 142, specifically paragraph 11(a) that requires consideration of the entity's expected use of the asset. As a result, the enterprise determines that the useful life of the broadcasting license is 10 years.

Disclosures

12. **For a recognized intangible asset, an entity shall disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement.**

13. In addition to the required disclosures in paragraphs 44 and 45 of Statement 142, an entity shall disclose the following, where applicable, separately for each major class of recognized intangible asset:

a. The weighted-average contract period prior to the next renewal
b. An entity's history of renewal for similar assets
c. Changes in the likelihood of renewal or extension from the prior reporting period for contracts with initial contractual periods or renewal periods ending within the next fiscal year
d. The incremental and direct costs incurred to renew or extend the contractual term of a recognized intangible asset and the line item in either the statement of financial position or statement of income in which the amounts are aggregated.

Effective Date and Transition

14. Except as indicated in paragraph 16, this FSP shall be effective for financial statements issued for fiscal years beginning after June 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited.

15. Except as indicated in paragraph 17, the guidance for determining the useful life of a recognized intangible asset in paragraphs 7–11 of this FSP shall be applied prospectively to intangible assets **acquired** after the effective date. The disclosure requirements in paragraphs 12 and 13 shall be applied to intangible assets **acquired, renewed,** or **extended** after the effective date.

16. This FSP shall be effective for intangible assets acquired in a combination of two or more mutual entities at the same time that the mutual entities apply FASB Statement No. 141 (revised 2007), *Business Combinations*.[1] This FSP shall not be applied to intangible assets acquired in a combination between not-for-profit organizations or arising from the acquisition of a for-profit business entity by a not-for-profit organization

[1] Statement 141(R) has not been issued as of the date of this proposed FSP's exposure for public comment. The Board anticipates that Statement 141(R) will be issued prior to issuance of the final FSP.

until interpretive guidance related to the application of the purchase method to those transactions is issued.[2] Early adoption is prohibited.

17. For intangible assets (a) acquired in a combination of two or more mutual entities, (b) acquired in a combination between not-for-profit organizations, or (c) arising from the acquisition of a for-profit business entity by a not-for-profit organization, the guidance in this FSP shall be applied in accordance with the transition requirements in Statement 142 (as amended by Statement 141(R) and other interpretive guidance) upon adoption of Statement 142 in its entirety by those entities.

18. For the purpose of clarity, mutual entities and not-for-profit organizations shall apply the provisions of this FSP for intangible assets recognized outside (a) a combination of two or more mutual entities, (b) a combination between not-for-profit organizations, or (c) an acquisition of a for-profit business entity by a not-for-profit organization for fiscal years beginning after June 15, 2008, in accordance with paragraph 14 of this FSP.

The provisions of this FSP need not be applied to immaterial items.

[2] The Board issued an Exposure Draft in October 2006 that addresses the accounting for goodwill and intangible assets acquired in a merger or acquisition for not-for-profit organizations.

Appendix

AMENDMENTS TO STATEMENT 142

A1. FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 11, as amended:

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.[9] 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. ~~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 own historical experience 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).
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).[10]

It is common for an income approach to be used to measure the fair value of an intangible asset. In cases in which this valuation technique is used, the remaining useful life shall consider the period of expected cash flows used to

<u>measure the fair value of the intangible asset adjusted as appropriate for the entity-specific factors in paragraphs 11(a)–11(f).</u>

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.

b. Paragraph 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
<u>d. For intangible assets with renewal or extension terms (both explicit and implicit), the weighted-average contract period prior to the next renewal and the entity's history of renewal for similar intangible assets, by major intangible asset class.</u>

c. Paragraph 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. For intangible assets with renewal or extension terms (both explicit and implicit):
   (1) A qualitative description of any material changes in the likelihood of renewal from the prior reporting period for contracts with initial contractual periods or renewal periods ending within the next fiscal year, by major intangible asset class
   (2) The total amount of incremental and direct costs expended for the period to renew or extend the contractual term of an intangible asset and the line item in either the statement of financial position or statement of income in which the amounts are aggregated.

~~c~~d. The changes in the carrying amount of goodwill during the period including:
   (1) The aggregate amount of goodwill acquired
   (2) The aggregate amount of impairment losses recognized
   (3) The amount of goodwill included in the gain or loss on disposal of all or a portion of a reporting unit.

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.