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September 26, 2001

Mr. Timothy Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: FASB Project Proposals

Dear Mr. Lucas:

The Committee on Corporate Reporting (CCR) of Financial Executives International is writing to provide its views on the proposal to add two potential major projects to the Board's agenda: Reporting Information about the Financial Performance of Business Enterprises and Disclosure of Information about Intangible Assets Not Recognized in Financial Statements. We are pleased that the FASB has circulated the project proposals for comment prior to being added to the agenda.

While we understand that the proposals are in their preliminary stages of definition, we are strongly opposed to these proposals being added as projects to the Board's agenda.

Using the Board's own criteria for determining whether a project is added to their agenda, we do not believe that a relevant, reliable and comparable solution is likely to be developed from either project nor do we believe that a technically sound solution will emerge especially as it relates to the valuation of intangible assets. Furthermore, we do not believe that an accounting solution will be developed that will be acceptable generally. We urge the Board to eliminate any consideration of these projects.

In addition, we reference the report done at the request of Arthur Levitt by a taskforce chaired by Dean Garten of the Yale School of Management. That report recommends "that the SEC pull together the considerable work that has already been done by academics, the accounting firms, and projects sponsored by organizations such as the Financial Accounting Standards Board in order to move forward with a framework for voluntary supplemental reporting for intangible assets, operating performance measures, and other information that would help investors assess a company's future performance." The report recommends that specific reporting standards, including the development of formal required formats, metrics, or ratios should not be mandated. The report goes on to recommend instead the creation of an environment that encourages innovation in disclosures, and that this will be best accomplished by voluntary, supplemental reporting about intangible assets, operating performance measures and forward-looking information—not replacing or modifying GAAP. The establishment of a formal standard would be in direct opposition to this recommendation.

1. Reporting Information about the financial performance of Business Enterprises

CCR is concerned about the current complexity and volume of disclosures already required and is concerned that this project would contribute to unnecessary complexity and thus diminish the value of the financial statements by trying to force compliance to performance measurements that are not relevant for a specific industry under the guise of consistency. We believe that the key financial measurements are dependent on the industry and are driven by the market. We believe that the market should drive companies to disclose these performance measurements relevant to the industry and not the FASB. Even the SEC has allowed for different interpretations of performance measurements as long as they are defined. If the performance measurements are meaningful to the market, the market should reward such disclosures with higher market values. Specific metrics for defining "performance" are not universally accepted—each investor has their own philosophical view as to what metrics are relevant, based on many factors, and the metrics are not constant over time. It would be presumptuous for FASB to assume they know best how to determine the right metrics for the readers of the financial statements to determine performance and value.

We again recommend that this project not be undertaken by the Board.

2. Disclosure of Information About Intangible Assets not Recognized in Financial Statements

CCR would strongly object to the inclusion of this project into the FASB agenda. Other projects would be a better use of the Board's time because of the vagueness of these proposals and that the probability of any meaningful and consistent outcome is extremely small.

The reason internally generated intangibles are not recognized as assets in financial statements is that there is no basis for recognizing them. Any attempt to ascribe a value to something so subjective could potentially lead to serious abuses. Trying to uniquely identify and value each of these intangibles has no meaning except in the context of how they are uniquely combined in a business to provide value. Additionally, this concept of fair value of intangibles would require the continuous application of forward-looking information in determining changing values, which is not subject to the reliability and measurability standards of Concept 5.

Any disclosures of "non-financial indicators about intangible factors such as market size and share, customer satisfaction, and new product success rates" would likely significantly increase the amount of time to deliver these statements. Items such as market share are not available except by estimate from industry associations and not until data from all sources is submitted and published.

If users of financial statements want information about key value drivers and if these drivers have value, the market should incent those companies that provide the information by raising the value of their stocks compared to others who do not disclose this information. And if you believe that providing value drivers would dampen stock earnings fluctuations, then a company would be irresponsible not to disclose those value drivers. Let the market work.

In summary, the scope of these projects is too vague and with no defined benefit and no demonstrated need. We urge the Board to drop any consideration of these projects from their agenda.

Mr. Lucas
FASB
Page 3
September 26, 2001

Anthony Knapp, of Motorola, developed this response. Should you have any questions, please feel free to contact him at (847) 576-2670.

Sincerely,

A handwritten signature in black ink, appearing to read "Philip D. Ameen". The signature is written in a cursive style with a large initial "P".

Philip D. Ameen
Chair, Committee on Corporate Reporting
Financial Executives International