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The Goldman Sachs Group, Inc. | 10 Hanover Square | New York, New York 10005 Tel: 212-902-5675 | Fax: 212-346-2920 | email: sarah.smith@gs.com

Sarah G. Smith Co-Controller Managing Director Principal Accounting Officer

> Goldman Sachs

October 9, 2001

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

Re: Proposal for a New Agenda Project—Disclosure of Information About Intangible Assets Not Recognized in Financial Statements

Dear Mr. Lucas:

We are pleased to have the opportunity to comment on the proposed project to establish standards for improving disclosure of information about intangible assets (the Proposal). In the attachment we provide detailed responses to the four questions posed in the Proposal. In addition to responding to the specific issues raised, we would like to summarize our key positions on the Proposal.

We believe financial statement users would benefit from improved disclosures about *all* intangible assets. The current financial accounting model clearly does not capture a significant portion of enterprise value drivers perceived by the capital markets. And we agree with the observation in the Proposal that comparability is a problem under the current accounting model because acquired intangible assets generally are recognized in financial statements while otherwise identical internally-developed intangible assets

¹ For example, even in depressed markets, shares of many enterprises trade at multiples to their underlying book values. We recognize, however, that it is not an objective of financial reporting to measure assets and liabilities such that stockholders' equity will equal market capitalization.

generally are not recognized. Consequently, we support a project to develop a disclosure standard for all intangible assets, whether recognized or unrecognized in the financial statements.

While we agree that disclosure is not a substitute for recognition, we do not support the stated secondary goal of the project, which is to take a first step in what might become an evolution toward recognition in an entity's financial statements of internally-generated intangible assets—if the recognition basis would be historical cost. We believe disclosures about the historical cost of intangible assets are of limited relevance to financial statement users compared to disclosures about their fair value. Therefore, we believe the project should focus on providing fair value information about intangible assets the enterprise controls and the characteristics that contribute to their value to the enterprise. The project also should address significant forward-looking events that may change the anticipated future benefits arising from intangible assets.

We would support a future project to develop fair value recognition and measurement standards for all intangible assets. However, prior to undertaking such a project, we believe financial statement users would be better served if the Board first focuses its efforts on the timely resolution of the many remaining recognition and measurement issues surrounding fair value accounting for financial instruments. Once these issues are resolved, the Board should focus on the recognition and measurement issues related to fair value accounting for tangible assets such as inventories and plant and equipment. We view these initiatives as logical and necessary seminal steps toward a fair value recognition paradigm for intangible assets. Only after these issues are resolved should the Board begin to address the more complex issues associated with measuring and recognizing the fair value of intangible assets.

Until the Board addresses recognition of intangible assets, we believe acquired intangible assets should be subjected to periodic impairment testing rather than amortization over their estimated useful lives. We believe amortizing acquired intangible assets presents the same conceptual problems amortizing goodwill did prior to Statement 142. We believe companies tend to recreate and renew intangible assets as part of maintaining and building their businesses; however, the costs of such regeneration generally are expensed as incurred. Amortizing acquired intangible assets ignores a company's ability to create new intangible assets and to sustain, and in most cases increase, the value of the enterprise.

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Our comments on the specific issues raised in the Proposal are attached. We thank you for the opportunity to provide you with our feedback. If you have any questions regarding our comments, please do not hesitate to contact me at 212-902-5675 or Paul Efron at 212-902-3282.

Sincerely,

Sarah G. Smith Co-Controller Managing Director Principal Accounting Officer

cc:

Paul Efron

Matthew Schroeder

ATTACHMENT

Detailed Responses to Specific Issues Raised in the Proposal

Is there a need for the FASB or others to comprehensively address the reporting of information about intangible assets of a business enterprise? If yes, should the FASB take on such an effort or defer to others? If so, to whom?

We believe financial statement users would benefit from improved disclosures about *all* intangible assets. The current financial accounting model clearly does not capture a significant portion of enterprise value drivers perceived by the capital markets. And we agree with the observation in the Proposal that comparability is a problem under the current accounting model because acquired intangible assets generally are recognized in financial statements while otherwise identical internally-developed intangible assets generally are not recognized. Consequently, we support a project to develop a *disclosure* standard for *all* intangible assets, whether recognized or unrecognized in the financial statements

While we agree that disclosure is not a substitute for recognition, we do not support the stated secondary goal of the project, which is to take a first step in what might become an evolution toward recognition in an entity's financial statements of internally-generated intangible assets—if the recognition basis would be historical cost. We believe disclosures about the historical cost of intangible assets are of limited relevance to financial statement users compared to disclosures about their fair value. Therefore, we believe the project should focus on providing fair value information about intangible assets the enterprise controls and the characteristics that contribute to their value to the enterprise. The project also should address significant forward-looking events that may change the anticipated future benefits arising from intangible assets.

We would support a future project to develop fair value recognition and measurement standards for all intangible assets. However, prior to undertaking such a project, we believe financial statement users would be better served if the Board first focuses its efforts on the timely resolution of the many remaining recognition and measurement issues surrounding fair value accounting for financial instruments. Once these issues are resolved, the Board should focus on the recognition and measurement issues related to fair value accounting for tangible assets such as inventories and plant and equipment. We view these initiatives as logical and necessary seminal steps toward a fair value recognition paradigm for intangible assets. Only after these issues are resolved should the Board begin to address the more complex issues associated with measuring and recognizing the fair value of intangible assets.

Is the proposed scope of such a project as described in this Proposal insufficient, appropriate, or too ambitious? One alternative would be a broader scope that might encompass other constituent recommendations, for example, (a) disclosure about nonfinancial indicators, management's key goals for them, and related risks,

strategies, efforts, and accomplishments in meeting its goals or (b) recognition and measurement of certain internally generated intangible assets. Another alternative would be a limited-scope project that focuses solely on, for example, disclosure of expenditures to develop and maintain unrecognized intangible assets or on disclosure of information about research and development activities.

We believe the proposed scope of the project is appropriate. However, because we believe the project should address disclosures of fair value and forward-looking information (rather than only historical-cost-based information) about an enterprise's intangible assets, we suggest the project's scope extend to *all* intangible assets, not only those that are not recognized in the statement of financial position.

Should specific issues identified above be excluded from the scope of the proposed project on reporting information about intangible assets? If yes, for each specific issue, please indicate whether it should be addressed as part of another FASB project, by others, or not at all and why.

What intangible assets are to be covered. The project should address all intangible assets the enterprise controls, whether or not they currently are recognized, whether acquired or developed internally, whether or not they arise from contractual or other legal rights, and whether or not they are capable of being separated or divided from the enterprise and sold, transferred, licensed, rented, or exchanged. Limiting the disclosures to only selected intangible assets likely would confuse, and could mislead, financial statement users.

What information should be disclosed. Current disclosures about intangible assets focus on historical information and do not explain the reasons for the significant differences in the market and book values of many enterprises—a stated goal of the project. The project should address the disclosure of major classes of intangible assets and the characteristics that contribute to their value to the enterprise. The project also should address significant forward-looking events that may change the anticipated future benefits arising from intangible assets. Compared with fair value, forward-looking information about the value drivers of an enterprise, we believe information about the historical cost of intangible assets and expenditures to develop and maintain intangible assets is of limited relevance to financial statement users.

Should the Disclosures Be Voluntary or Required. We believe compliance with important accounting standards should be required. Experience has shown that compliance with voluntary accounting standards is low, as noted in the Proposal. If the Board believes the disclosures are sufficiently important to devote substantial valuable resources to developing a standard, absent compelling reasons otherwise (e.g., cost/benefit issues for non-public companies), compliance with the standard should be required.

Should the Disclosures Be Made Annually or More Frequently. We believe annual disclosure of information about intangible assets is appropriate, unless interim events significantly change the value of the intangible assets to the enterprise. Intangible assets

typically are not affected by the quarterly vicissitudes of economic activity; rather, their values increase or decrease—and these changes in value manifest themselves—over longer periods of time.

Should specific issues not identified above be addressed as part of the proposed project on reporting information about intangible assets? If yes, please describe the specific issue and indicate why it is sufficiently crucial that it should be addressed as part of the proposed project.

As mentioned previously, we believe the project should address fair value and forward-looking information (rather than only historical-cost-based information) about an enterprise's intangible assets. Therefore, we suggest the project's scope extend to *all* intangible assets, not only those that are not recognized in the statement of financial position.