Software Finance & Tax Executives Council
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October 9, 2001

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

Re: Proposed Intangibles Disclosures and Financial Performance Reporting Projects

Dear Mr. Lucas:

This is in response to the request made August 17, 2001 by the Financial Accounting Standards Board (FASB) for public comments regarding its proposals to add intangibles disclosures and financial performance reporting projects to its agenda. The Software Finance and Tax Executives Council (SoFTEC) believes that the proposal to add an intangibles disclosure project to the Board's agenda would not lead to the development of an accounting standard which would be generally accepted, would not provide financial statement users with additional useful information, would be expensive to implement, and would further erode financial statement comparability. SoFTEC believes that the proposal to add a financial-performance reporting project to its agenda has merit.

SoFTEC is a non-profit trade association that provides software industry focused public policy advocacy on finance, tax and accounting issues. Software companies in general are a collection of intangible assets the nature, value and longevity of which often are difficult to discern. In addition the effects of changes in the values of software-company intangible assets on financial performance often are not obvious. SoFTEC members thus are keenly interested in the FASB's proposals to take on the task of developing accounting standards in these areas.

1. Intangibles Disclosures:

SoFTEC believes that FASB should not add to its agenda a project focused on developing an accounting standard for intangibles disclosures. We believe that there is a high probability that FASB would be unable to devise a workable standard that would result in the disclosure of useful information, any such standard would be expensive and time consuming for statement preparers to implement and the quality of any information

required under such a standard is likely to be compromised by the uneven application of judgment by preparers.

First, we believe that the proposal to add the intangibles disclosure project to the agenda is premised on the incorrect assumption that intangibles within a given class will be similar. We believe instead that the value to an enterprise of an intangible generally will rest with the way in which the business uses the intangible. The manner in which companies use their intangibles varies. We think it unlikely that an accounting standard will be able to capture the myriad ways in which companies use their intangibles and convey such information in a manner that allows financial statement users to compare and contrast two otherwise similar companies.

There can be little question but that the implementation of any standard that requires disclosure of information about intangibles will be expensive and time consuming for financial statement preparers. Management will be required to spend considerable time applying judgment determining what major classes of intangible assets the business owns, identifying their characteristics, deciding which expenditures benefit which class of intangibles and musing what might constitute a significant event that results in a potential change in anticipated future benefits. This says nothing about the cadre of outside consultants that will be necessary to opine about the possible values of these assets. Those consultants will be expensive to hire and will consume much management time in terms of care and feeding.

Producing information about intangible assets (and intangible liabilities for that matter) involves a process that depends in large part on the application of judgment. Whether the person producing the information is an employee of the business or an outside consultant, the beauty of the intangible largely will be in the eye of the beholder. It is likely that the people rendering the judgments about a business's intangibles will change from reporting period to reporting period. There will be no consistency from company to company and from period to period of the sort required for even a modicum of comparability for this type of information.

Next, we believe it difficult to reconcile the movement by the Securities and Exchange Commission towards quick-release financial statements with the proposed development of an accounting standard that would require time consuming, subjective analysis of matter that may or may not rise to the level of assets. We submit that the two move in opposite directions.

Last, we believe that the failure of current standards to facilitate the reporting of comparable information about intangible assets is symptomatic of an inventory accounting model having its roots in the smokestack industrial economy of the mid-20th century. Any attempt to interject more subjective information into financial statements will only serve to make them less relevant to users. Investors and creditors increasing rely on other information provided by management and are reducing their reliance on financial statements issued in accordance with Generally Accepted Accounting Principles (GAAP). Instead of focusing on individual issues, such as intangibles disclosures,

accounting standards setters should undertake a fundamental reexamination of the accounting model. Standards setters should construct an accounting model around providing information that financial statement users actually want, not around providing information that standard setters think financial statement users should have.

2. **Financial Performance Reporting:**

SoFTEC believes that FASB should add to its agenda a project focused on developing standard-like guidelines for reporting financial performance. There is little question but that the current environment places less emphasis on information contained in financial statement issued using GAAP; instead more emphasis is placed on information contained in earnings releases and management conference calls, and similar selected disclosures.

Unfortunately, we believe that standards setters, both in the private and government sectors, are powerless to regulate in this area. We believe that the emergence of non-GAAP financial information as the preeminent source used by the public is demonstrative of the failure of the current accounting model to provide financial statement users with relevant information. FASB should use this opportunity to undertake a cross-sectional study of the various modes used by business to get relevant financial information into the hands of users. FASB should then develop a set of guidelines (not rules) based on input from the business community, the accounting industry, the investment community (such as banks, venture capitalists, institutional investors, etc) and federal agencies such as the SEC and the Treasury Department.

SoFTEC believes that undertaking such a review could be a first step in developing a substantially improved accounting model. FASB could take guidelines developed for financial performance reporting and work backwards in the development of a such improved accounting model. The current accounting model is overly complex (witness the hedge-accounting rules) there is no consistent standards for revenue recognition (for example very refined rules regarding "vendor specific objective evidence" for software companies, but no such rules for hardware companies) and a hodge-podge standard-setting hierarchy (with AcSEC making rules on consolidations, FASB dealing with nuclear decommissioning costs, EITF issuing a constant stream of interpretations that preparers have difficulty keeping up with and the SEC imposing its own interpretations of all of the foregoing).

It may be that the current "black or white" approach is ill suited to the post-industrial economy. Perhaps a framework approach that facilitates market-driven disclosures would provide the sort of transparency that financial information users demand. We believe that FASB should look-into such an approach under the guise of a financial performance reporting project.

Conclusion:

As stated above, SoFTEC believes that a project focused on developing standards for disclosures about intangible assets is unlikely to bear fruit. SoFTEC does support adding to FASB's agenda a project focused on reporting financial performance. As always, SoFTEC looks forward to working with FASB as it moves forward with its decision making process on these issues.

Respectfully submitted,

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President
Software Finance and Tax Executives Council