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August 30, 2001

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

Dear Mr Lucas,

**Re: Proposed Agenda Project on Disclosure of Information About Intangible Assets  
Not Recognized in Financial Statements**

I write to you from the perspective of an Australian academic who has a keen interest in intangibles accounting. I support the proposed agenda project on disclosure of information about unrecognized intangibles. Below is some information on the Australian intangibles 'experience' which the FASB may find useful.

Australia has a relatively unregulated reporting regime for intangibles. We have only two main standards – AASB 1011 *Research and Development Costs* and AASB 1013 *Accounting for Goodwill* and our company law requires only scant disclosure and prescribes no recognition or measurement rules. For intangibles apart from R&D and goodwill, firms are relatively free to capitalize or immediately expense acquired intangibles. Additionally, firms can and have recognized internally-generated intangibles at valuation (using a variety of valuation methods) by crediting an asset revaluation reserve.

In this area of accounting, the main differences between US and Australian GAAP are that under Australian GAAP:

1. R&D costs can be capitalized,
2. Other intangibles – whether acquired or internally generated, can be capitalized, revalued and are not required to be amortized.

In such a reporting regime, investors might have concerns about the quality of financial information about intangibles due to: uncertainty created by managers abusing the rules (or lack of rules) and incomparability across firms. For example, ignoring goodwill, about 30 percent of firms capitalize intangibles, about 50 per cent of these are amortized and the remaining 50 per cent are either regularly revalued or held at cost. However, I find just the opposite in my recent paper that uses a very similar approach to US researchers.

Specifically, Professor Lev and others provide evidence that the quality of US earnings is low and declining over time mainly because of inadequate accounting for intangibles. Australian data provides a different data set on which to examine this issue because of the above-mentioned reporting regime. My evidence shows that the earnings of firms that capitalize intangibles

(irrespective of what type of intangible, magnitude of the asset, the firm's industry and whether or not the firm amortizes); capture more of the information used by investors in recent years than in the past. What is most interesting is that the earnings of firms that capitalize intangibles have become increasingly useful to investors over the past 25 years and firms that don't capitalize have become decreasingly useful over this period.

My evidence only speaks to the needs of investors without consideration of the needs of other important users of financial information. However, I strongly believe that increased disclosure will not disadvantage any of these other users – except for perhaps analysts who likely have a proprietary interest in non-disclosure.

In 1989, the Australian Accounting Standards Board (AASB) circulated a draft standard (ED 49) that prescribed recognition, measurement and disclosure rules for all intangibles, but this draft was later withdrawn. The AASB received no less than 100 detailed submissions on this draft and I have a copy of each one. I would be pleased to provide the FASB with a copy of these submissions.

Yours sincerely

A handwritten signature in black ink that reads "John Goodwin". The signature is written in a cursive, flowing style.

John Goodwin

La Trobe University  
School of Business  
Bundoora, Victoria,  
Australia 3083