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VIA E-Mail and Overnight Courier

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Re: Proposed addition of a potential major project to the Board's agenda – disclosure of information about intangible assets not recognized in financial statements

Introduction and Summary

The National Venture Capital Association (NVCA) represents more than 420 professional venture capital firms located throughout the United States. Venture funding is a major factor in promoting innovation and entrepreneurial businesses. Indeed, last year, venture capital funds invested over \$103 billion in emerging growth companies. Venture capitalist invest extensively in high technology and intangibles-laden companies. Our members have a special interest in the issues raised by the Proposal on disclosure of information about intangible assets and much experience in the challenges of understanding and communicating the value of companies' intangible assets.

NVCA agrees that intangible assets are increasingly important in the U.S. economy and that better information regarding intangibles could benefit investors. However, we disagree with the view, stated in the Proposal's statement of the problem, that "without the leadership of . . . standard-setting or regulatory bodies, it is unlikely that companies will consistently provide financial statement users with reasonably comparable information about intangibles." Indeed, NVCA believes that the best means for improving the quantity and quality of information provided to investors about intangible assets is through ongoing voluntary efforts. While we believe that the Board can play an important role in encouraging such developments, we do not support the Proposal for a separate formal project on the disclosure of intangible assets not currently recognized in financial statements.

Discussion

NVCA is familiar with the work, which the Board cites in favor of adding a project on intangible assets to its agenda. Indeed, we concur that the "large and growing discrepancy between the

importance of intangible assets to economic growth and the ability to identify, measure and account for those assets is a serious potential problem for business managers, for investors, and for governments." Margaret M. Blair & Steven M.H. Wallman, *Unseen Wealth*, *Report of the Brookings Task Force on Intangibles* (2001), Foreword, at vi.

Leading venture capitalists were members of the Garten Commission, which concluded in May 2001 that the current reporting system "provides limited guidance about the other information that investors need...." And "[s]ince value is driven by a company's expected future profits and cash flow, investors are interested primarily in information that will help them project both." Strengthening Financial Markets: Do Investors Have the Information They Need?, REPORT OF AN SEC-INSPIRED TASK FORCE (hereinafter "Garten Report"), at 1.

While both the Garten Commission and the highly-respected Brookings Task Force urged that steps be taken to increase the reporting on intangibles by companies, neither recommended that new accounting standards be developed by the FASB. Indeed the Garten Commission expressly recommended against more regulation and in favor of reliance on market forces, incentives to disclose additional information about intangible assets and meaningful performance metrics, and changes in the securities laws to eliminate some of the disincentives to reporting such data. *Id.* at 2-3. Each of these recommendations is beyond the purview of the FASB.

While the Proposal in question does not discuss new standards, new mandates must be in mind if the goal is "consistency" and "reasonable comparability." Proposal p.2. Therefore, NVCA does not support the Board's undertaking this new project. In addition, NVCA sees any new mandates as impractical to implement. This is true both with respect to "intangible assets that are not recognized in statements of financial position, but would have been recognized if acquired either separately or in a business combination," Proposal at p.3, and with regard to "inprocess research and development assets." *Id.*

Conclusion

The Board's own study noted that issuers increasingly recognize that disclosing reliable information about intangibles and operating performance is a competitive advantage in attracting capital. See The Business Reporting Research Project, Financial Accounting Standards Board, Improving Business Reporting: Insights into Enhancing Voluntary Disclosure (2001) (hereinafter "Enhancing Voluntary Disclosure") at v. NVCA and many others believe that additional disclosures about intangible assets will come because investors demand such information. The Board has done sound work in developing its Special Report: Business and Financial Reporting, Challenges for the New Economy (No. 219-A, April 2001). In addition, the Board's, Enhancing Voluntary Disclosure has provided useful insights into the effective use of the flexibility companies have to make voluntary disclosures about intangibles. The development and dissemination of this information to the accounting profession, academia and reporting companies is a valuable contribution. However, NVCA believes that the Board, a standard setting body, is not the proper forum for developing the framework or common language that is needed for increased comparability in disclosures about intangible assets. With a firm belief in . market mechanisms as the best means of developing the right kinds of disclosure, we agree with the Garten Commission that eliminating disincentives to disclosure will allow for the market to

determine what kinds of information about intangibles will best meet the needs of investors in this ever-changing business environment.

NVCA appreciates the opportunity to make its views known and looks forward to continuing to work with the Board and its staff.

Sincerely yours,

Mark G. Heesen President