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

Dear Mr. Lucas:

Thank you for this opportunity to comment on the FASB's proposed agenda items prior to finalizing the agenda. We believe that this new process is a great improvement and demonstrates the FASB's commitment to be responsive to constituents' needs.

We agree with the IMA Financial Reporting Committee's (FRC) opinion that the FASB's resources may be best used by

- Consolidating and issuing new guidance in the area of revenue recognition and related liabilities
- Performing a FASB Codification and Simplification project

Unfortunately, we strongly oppose the addition of the "Reporting Information about the Financial Performance of Business Enterprises" project and the "Disclosure of Information about Intangible Assets not Recognized in Financial Statements" project.

Our opposition is strongly influenced by our opinion that the best information in these areas is driven by market demands. If information in these areas is valuable to financial statement users, companies that voluntarily report such data will be rewarded. The underpinnings of our opinion in this regard stem from our strong belief that information in these areas is highly specific to not only different industries, but also different companies within industries.

#### Our Recommendations

We recommend that the Liability and Revenue Recognition project discussed in the FASAC survey would be a worthwhile endeavor at this time. The reasons for our decision are in line with the rationale set forth in the FASAC survey and in the FRC letter to you regarding Potential Board Projects.

A project dedicated to FASB codification and simplification would be very timely given the current confluence of events:

- New FASB Board members
- Changing of the guard at the SEC
- New IASB activities

Companies are required to constantly reinvent themselves to stay relevant and to survive. The world is constantly changing and we must meet the changing demands of our shareholders and customers (i.e., our constituents). The FASB is not exempt from this need. The ability of schools to attract bright people into the accounting profession and our ability to find and retain such people are always becoming more difficult given the complexity and volume of accounting rules. The way analysts and investors view companies' financial performance is also constantly evolving. Finally, the opportunity to forge a new set of global standards with the IASB is unprecedented.

In Corporate America, a natural time to review current processes and relevance is when a new person is hired or transferred into a position. With three new Board members, the FASB is at that point right now.

Topics of interest would be (not in any particular order):

- Nature and extent of field testing
- Broad principles versus detailed rules
- Degree of participation with IASB (parallel or joint projects, etc)
- The Due Process process
- Combination of multiple GAAP sources of guidance (through issuance of new pronouncements or otherwise)

As stated at the beginning of this letter, your idea to provide us with an opportunity to give input on your agenda in this way is wonderful and most appreciated. Perhaps there are more areas to consider and decide whether to change...or not to change.

### Performance Reporting

As stated above, we strongly believe that any attempt at requiring standardization is doomed to fail due to the fact that each industry and many companies within an industry have unique attributes. This uniqueness renders any task that requires a definition of "core" versus "non-core" futile. Creating a required formula for certain frequently used metrics such as EBITDA is also a goal that will be impossible to realize. The SEC recognizes this fact and does not object to these different metrics as long as the formula used is disclosed.

Examples of these differences include the fact that IBM has a captive financing business but most of our competitors do not. Other major multinationals have financing businesses, but their financing businesses many times uses different legal structure and have a different scope of business than ours...plus, many of these other companies are not technology companies. IBM's business incorporates elements of software, hardware, services, and OEM components. None of our competitors has the same mix or breadth of offerings. Similar differences exist in the financial services industry whereby a company could have all or some of the following businesses: brokerage, banking, insurance, investment banking, venture capital, etc. Designing performance measures or definitions that would equally apply to these diverse companies would provide little value.

Suggesting that “net income” is losing relevance may be missing the mark. In our opinion, net income is the great equalizer. In recent articles and as suggested in the FEI Committee on Corporate Reporting Pro Forma Earnings Recommendations, companies are being encouraged to reconcile any press release pro forma earnings information back to net income.

Finally, the beauty of our reporting system relies on a core, historical cost-based set of accounting rules, yet, it allows companies and industries to develop tailored approaches that suit the needs of the financial statement users. This is the best of both worlds: a bottom line benchmark (net income) and market driven specifics that encompass the uniqueness of each company. Requiring additional conformity may mislead readers of financial statements into thinking that there is more comparability than really exists.

In recognition of the IASB’s plans to tackle this project, our recommendation would be for the FASB to closely follow this IASB project and to consider elements of the IASB’s conclusions along the way.

### Intangibles

We agree that there is an undesirable inconsistency in current GAAP for intangibles. In a perfect world, a company that internally generates intangibles should have the same accounting results for those intangibles as those companies that purchase the intangibles. In our opinion, the costs of achieving parity in this regard far outweigh the benefits.

With regard to mandating qualitative disclosures about intangibles, we once again refer to our discussions above regarding uniqueness and the market forces surrounding qualitative disclosures. Each industry and many companies within industries will have different intangibles and different value drivers associated with those intangibles. Mandating common disclosures may place inappropriate emphasis on certain intangibles. Comparisons of technology service companies might reveal that the primary drivers of value from intangibles may be customer-related for one company, people-related for another, complementary in-house hardware and software companies for a third, and a combination of some or all of these for a fourth. Mandating disclosures of this information would suggest some level of comparability that does not exist.

A much larger concern is the prospect of this leading to a project that ultimately results in a requirement to quantify such internally generated intangibles for either disclosure or recording. One of the strengths of U.S. GAAP accounting is that most transactions are based upon solid objective evidence (e.g., arms length transactions, quoted market prices, etc.). Valuations of intangibles involve a tremendous amount of judgement and subjective reasoning. This is acceptable for purposes of allocating an overall business combination purchase price that is grounded in an objective exchange between two willing parties. Extending the use of valuations of intangibles to actual supplemental disclosures or to the recording of new assets would go too far.

Given the degree of judgement and subjectiveness that underlie valuation of intangibles, we believe that disclosure or accounting of internally generated intangibles would have actually increased the irrational exuberance of the past few years as opposed to the quelling effect others suggest.

Finally, valuing intangibles would be cost prohibitive and could be subject to widespread abuse.

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In summary, we appreciate this opportunity to provide input at this early stage. We would be pleased to discuss these matters further at your convenience. You may contact me or David Colistra at 914-766-0850 or through e-mail at [Colistra@us.ibm.com](mailto:Colistra@us.ibm.com).

Yours truly,

George Harrington