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Dear Mr. Lucas:

This letter contains our comments on the August 17, 2001 proposal for a new FASB agenda project, "Disclosure of Information about Intangible Assets not Recognized in Financial Statements."

1. We support the Board adding to its agenda a project on intangibles. This is consistent with our responses in the last couple of years to the annual FASAC survey of projects and priorities of the FASB and with our response to the April 2001 FASB's Special Report, "Business and Financial Reporting Challenges from the New Economy." For example, in our response to the 2000 FASAC survey, we stated, "the issue of intangible assets has emerged in the business combinations project, and is taking on more significance in the New Economy. Irrespective of the outcome of such a project, it needs to be explored. R&D should be part of the intangibles project."
2. In our June 25, 2001, letter of comment on the Special Report on the "New Economy," we stated the following:

We believe the four possible future projects identified in the Special Report are appropriate projects for the FASB and other standards setters to address. As the FASB's resources free up when current projects conclude, we suggest adding some of these projects to the FASB's agenda. We would give higher priority to the two projects on recognition and measurement of intangible assets, on the grounds that expanded disclosures could evolve voluntarily.... We also believe that projects on intangible assets should be pursued in cooperation with other standards setters to enhance international harmonization.

In summary, we agree that the Special Report identifies the right issues and the appropriate possible future projects. We encourage the next steps to be done with a goal of international harmonization and with a sense of urgency but also caution. The task is a formidable one—involving significant conceptual and operationality issues—requiring a deliberate approach.

Notwithstanding our preference to address recognition and measurement issues, we do not object to the FASB's proposal to start with disclosure. It is necessary to make a concerted effort given the recent attention on the matter.

3. We are confused about the language on page 6 of the proposal concerning the IASB and other national standard setters. For the reasons given, it says, "the FASB would likely be working separately on this proposed project." As stated in point 2 above, we believe international harmonization is critical. We understand that the IASB identified intangibles as an area for study and that the IASB will be working with national standard setters to ensure that any differences among national standard setters or with the IASB are identified and resolved as quickly as possible.
4. The focus of the proposal is on unrecognized intangibles. We believe any incremental disclosures developed as a part of this project should also apply to recognized intangibles. FASB Statements No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets," prescribe certain disclosures for identifiable intangibles but they are primarily limited to types, carrying amounts, and the accounting (amortization method, residual values, amortization amounts, impairments, etc.).
5. With respect to the individual questions raised in the proposal and not answered elsewhere in this letter, we have a specific comment on Question 2. We do not support at this time a broader scope that might encompass disclosures about nonfinancial indicators, management's key goals for them, and related risks, strategies, efforts and accomplishments in meeting its goals. The proposed scope is enough of a challenge.
6. We note that the EITF has at least one issue on its current agenda that is related to the proposed project—namely, Issue 00-20, "Accounting for Costs Incurred to Acquire or Originate Information for Database Content and other Collections of Information." Would further EITF deliberations be helpful to the FASB on this proposed project? Should the EITF stop work on its issue pending developments on the proposed project? There may be other EITF issues as well.
7. We did not understand the comment in footnote 3 that the proposed project would not touch on, for example, banks' core deposit intangibles. Why not? Further explanation is needed.

We would be pleased to discuss our comments further with the Board or staff.

Very truly yours,

Arthur Anderson LLP