

Letter of Comment No: 17
File Reference: 1123-001
Date Received: 9/17/01

-----Original Message-----

From: lbloomquist@novagate.com [<mailto:lbloomquist@novagate.com>]

Sent: Monday, September 17, 2001 9:06 PM

To: director@fasb.org

Subject: the proposed project on intangibles

Dear Mr. Lucas,

My company does not wish to comment on the project that's proposed by the FASB on intangibles. But as its participant in the Brookings Institution project on intangibles I would like to comment as a concerned citizen, if I may.

Based on the work I performed for the Brookings Institution project on intangibles, I believe that the FASB has a role to play in addressing the reporting of intangibles. If a company owns an intangible asset, then whether or not a dollar figure can be assigned to the intangible asset there should at least exist some solid representation of the intangible asset-- for example, a document that describes it. To enable the effective and efficient comparison of intangible assets by means of such representations, the FASB should lead in standardizing the representation of intangible assets.

(More details on representing intangible assets and some further economic justification are available in something that I wrote when participating in the Brookings Institution project. Here is the web page-- <http://www.unifr.ch/econophysics/articoli/articoli-00-jun.html>)

This implies the need for an expansion in the scope of the project. There is good justification. Today computers are used in the stock market for the technical analysis of dollar data. The importance of computers in this segment of the economy is beyond dispute. Then with similar effect, could computers also be used to help compare non-dollar data-- such as the information that's conveyed by representations of fundamental, intangible assets? I'm convinced that the answer is Yes-- but only if there is an "XML" standard for representing the intangible assets.

(Please see the web site <<http://www.computercpa.com/xml2.html>> for links to some of the current work in the accounting profession on XML and some background on "XML for Accountants.")

"XML" means Extended Mark-up Language. XML is a new form of computer data that will be the core of the next phase in web applications. All underlying information content on the web will in the future be conveyed via XML. Most industries today are furiously standardizing on the XML that they need to exchange information via computers with customers and suppliers. Likewise, to enable the full use of computers in the comparison of intangible assets it seems logical that the FASB should play a key role in standardizing the XML by which intangible assets are represented.

To standardize XML for the effective and efficient transfer of information in any industry requires, first, specifying a meaningful "schema" for the desired XML documents. A schema is just syntax. In natural language, there are combinations of words that conform to correct syntax and there are combinations of words that do not conform to syntax. The former make understandable sentences while the latter do not. Similarly, for a given XML schema there are XML documents that conform to it and there are XML documents that do not conform to it. To tell which is which, one simply runs the XML document through a computer program that checks whether or not the document conforms to the schema which has been specified.

The role of the FASB in this would be to drive a solid and well reasoned approach to a standard XML schema for representing intangible assets. Without FASB participation this kind of a standard will not be as likely.

Some initial details can be suggested. When I participated in the Brookings Institution project on intangibles I learned that "workpoint costing" (Institute of Management Accountants, Statement 4BB) has the mathematical structure of "situation theory" (Keith Devlin, InfoSense: Turning Information into Knowledge, W.H. Freeman, 1999). The workpoint is simply a type of situation. Moreover, situation theory has the power to extend workpoint costing to represent intangible assets. Based on this, the XML schema that seems best for representing intangible assets would be an implementation of situation theory that extends workpoint costing.

There is additional information available. For our work with the Brookings Institution on intangible assets we commissioned a paper from Keith Devlin, who is one of the mathematicians who helped develop situation theory. The title of the paper is "Using Situation Theory to Value and Manage Intangible Assets." If you wish to see more details on the subject, Devlin's paper would be the best starting point. Please let me know if you are interested in seeing it.

Should you desire any further information I will be happy to respond. Please feel free to contact me.

Lee G. Bloomquist

1-616-698-4816
lbloomquist@novagate.com
6620 142nd Avenue
Holland, Michigan 49423