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

September 14, 2001

Dear Mr. Lucas,

Re: Proposed Agenda Project on Disclosure of Information about Intangible Assets not Recognized in Financial Statements.

I am writing you on behalf of the MERITUM Research Team in response to your letter dated August 17, 2001 in which you announced the Proposal to add the project Disclosure About Intangible Assets not Recognized in Financial Statements to the FASB's Agenda.

We strongly believe that there is a need for more and higher quality information on intangibles in the financial statements of business companies, and therefore we firmly support the inclusion of that project to the Board's Agenda.

The MERITUM project funded by the European Union was the first international joint research effort aimed at improving our understanding of the economic nature of intangibles, their relevance for management, investment and credit decision making and, specifically, at providing companies with guidelines for the design and implementation of information systems for the identification, measurement and management of intangibles and the disclosure of information on the intangible determinants of value. Although a large number of research papers have been published by our research team, the main outcome of our project were the Guidelines for Managing and Reporting on Intangibles that were validated by a large number of experts from six European countries and are now available. (Full information on the MERITUM project, persons and institutions involved and, research outcomes is available at <http://www.kunne.no/meritum/>)

We are currently launching the E*Know-Net project which will create a network of excellence centers to disclose the guidelines for improving management practices and financial reports of business companies.

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Below are some arguments supporting the convenience of adding the disclosure about intangibles project in the FASB's agenda.

1. Need for the FASB to comprehensively address the reporting of information about intangibles of a business enterprise.

Our research has revealed that the lack of information about intangibles in the annual reports of business companies has significant implications for the users of accounting information that may lead to important harms arising from inefficient resource allocation decisions. The absence of information on the intangible determinants of the financial position of the firm makes it difficult for investors and creditors to assess the risk and estimate the future payoffs needed to conduct a sound valuation exercise. As a result, companies face large stock volatility and bid-ask spreads as well as high interest rates and cost of capital.

On the other hand, increased disclosure of information on intangibles will help overcome the limitations of innovation studies and provide a consistent basis for the design and implementation of public policies aimed at increasing the competitiveness of specific industries or countries.

2. Is the proposed scope of the project appropriate.

We do believe the scope of the proposed project is appropriate. It appears that the disclosure of information on intangibles that are not currently recognized when they are internally generated but are recognized when they are acquired is the first step towards improving the information on intangibles in the financial reports.

Further steps would involve the identification of value drivers, the disclosure of non-financial indicators of the value of the firms' intangibles and, the recognition and measurement of intangibles out of the scope of the project.

3. Should specific issues be excluded from the scope of the proposed project?

In our view, fair value estimates should be left aside in the early stages of the regulatory effort initiated by the FASB with Statement 142. Further steps should be taken only when companies and users have become familiar with the new information on intangibles contained in the financial statements. Notwithstanding, firms should be encouraged to disclose such estimates voluntarily to help investors and creditors better understand the financial position of the firm.

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4. Should issues not considered in the scope of the proposed project be addressed?

Although firms are often reluctant to disclose information beyond that required by accounting standards, we believe that voluntary disclosure of information on intangibles is useful for the users of financial statements, and therefore should be encouraged. This was among the main conclusions of the OECD conference on intangibles held in Amsterdam 1999, in which most members of our team played an active role.

Even though the SEC and the IASB have released documents stating their concern for the disclosure of information on intangibles as a means of improving the ability of financial statements to provide an accurate view on the financial position of business companies, we are not aware of any formal intention to include a project of this nature in their agendas. Therefore, we believe the FASB should pioneer this endeavor that will undoubtedly result in a significant increase in the usefulness of accounting information for investors and creditors.

In sum, we strongly support the proposal to add the disclosure on intangibles project to the FASB's agenda as we believe that the improvement of the current accounting model by increasing the amount and quality of the information on the intangible determinants of the value of companies represents one of the main challenges facing the accounting community in the 21st century.

Best wishes,

Leandro Cañibano
Scientific Director MERITUM Project

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