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

Dear Mr. Lucas:

I am writing to express my enthusiastic support for the proposed initiative of the FASB on disclosure of information about intangible assets not recognized in financial statement. My reaction is based on following personal observations and consensus in academia.

1. The growth of innovative activities in its share of the overall economy provides opportunities as well as challenges to financial accounting

As explicitly stated in the FASB's conceptual framework, financial accounting should serve the purpose of providing information helpful for investors to make investment decisions. This makes accounting for firms' innovative activities and their buildup of intangible assets a prominent issue to investors. This is because those activities—and the resulting tangible assets—have been found to be the driver of the economy and industry in the United States, especially in such hi-tech areas as pharmaceuticals, computer, etc. It also presents a challenge to the existing accounting framework, which was tailor-made to the needs of manufacturing industry, or tangibles, since its inception. In accounting academia, Professor Baruch Lev from New York University and other leading academics have demonstrated that traditional accounting information, diluted by the growing intangibles that escape accounting treatment, has become less "useful" to market participants, although their definition of "usefulness" could be refined to gain wider acceptance. In addition, other studies have found intangibles have been a tool at the managers' discretion to engage in various manipulative activities to the detriment of investors' interests. In all, it seems incumbent upon the FASB to take steps in the direction where investors are able to better appreciate the implications of intangibles more timely, efficiently and with more accuracy.

2. The cost-benefit constraint dictates a thorough assessment of disclosures of intangible assets as a viable option to the current accounting treatment

In SFAS No. 2, the FASB spells out the "cost-benefit constraint", which simply states that the benefit of producing the information should exceed the cost of producing it.

Given the ready availability to the manger of information on creation and consumption of intangible assets, disclosing the information so that it can be quickly shared among investors (and other corporate constituents) represents an optimal choice relative to the other two proposed options: (i). keeping the status quo; and (ii) switching to capitalizing of the intangibles. While we can forego a analysis of (i) because it has been examined in 1 above, the second proposal, capitalizing expenses incurred in firms' innovative activities, has triggered a heated debate amongst academics, practitioners and regulators. Given the uncertainty in the implementation of the new scheme and the concomitant difficulties it brings (such as the measurement and recognition difficulties, auditor liabilities and associated litigation concerns, etc), it is very likely that voluntary disclosure of those innovative activities is the most effective approach in facilitating the communication between investors and managers on intangible assets.

3. R&D activities take the lion's share of the technology firm's voluntary disclosures

Professor Feng Gu from Boston University and I are in the process of finishing up a study examining the disclosure patterns of over 300 firms operating in several hi-tech areas. We drew a sample from a universe of all the public companies in those sectors, and use statistical methods to ensure the distribution of the sample firms match well against that of the population by such economic variables as firm size, R&D outlays, sales, etc. We have found most of the disclosures made by the firms are related to R&D activities at different stages of tangible assets' creation. (We define the stages following the well-accepted flow chart depicting the process of intangible assets' creation.) We also found that the disclosures differ greatly in their patterns contingent on the industry sector examined. For example, so far firms in the pharmaceutical industry are most active in providing information on innovative activities of all stages, while the computer software industry tend to report only information on new product launch. These evidence has convinced us that more efforts are needed to have a better understanding of the firms' voluntary disclosure on their creation and consumption of intangibles, particularly R&D activities. Since we have not been able to find much disclosure on other purported value-creating events, like human capital development, customer base and satisfaction, brand management, etc., it is fair to say more work is necessary to identify the reasons behind these distinct disclosure behaviors.

Taken together, I thank you for your vision and leadership in bringing this important subject to the attention of the entire FASB constituency. And I firmly believe we should make full use of this opportunity to at least set the ball rolling in the right direction.

Yours truly,



John Q. Li