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Mr. Timothy S. Lucas
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Financial Accounting Standards Board
401 Merritt 7
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Re: Potential Board Agenda Projects

Dear Mr. Lucas:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is pleased to respond to your request of August 17, 2001 for input on projects the Board should consider adding to its agenda. This letter also formalizes the oral input provided during the IMA liaison meeting with the Board held on September 7, 2001.

At that meeting the FRC recommended that, with respect to potential agenda items, the Board focus allocating its resources on two major projects, "Liability and Revenue Recognition" and "FASB Codification/Simplification," and not adopt the two projects covered by the August 17 Proposals, "Reporting Information about the Financial Performance of Business Enterprises" and "Disclosure of Information about Intangible Assets not Recognized in Financial Statements." The FRC commends the FASB in utilizing Proposals to seek comments before adding major projects. They should prove to be an effective supplement to the well established process of obtaining the views of FASAC and other interested parties.

The FRC considered the current environment in arriving at this recommendation. The impact the International Accounting Standards Board (IASB) and its projects will have on the FASB's agenda is yet to be understood. In addition, selection of new leadership at the Securities and Exchange Commission (SEC) is in process; yet to be defined are changes, if any, in its view of and role in private sector standard setting. Also, the business community is still absorbing the difficult implementation issues involved in Statements 141 and 142 (potentially 143 and 144 as well) and the FASB needs to be prepared to help respond to questions in that area rather than simply moving on to new matters. With this degree of change and uncertainty in the accounting profession, the FRC believes it more prudent for the FASB to select only two new projects that focus on

the most immediate needs of the profession rather than take on a raft of new issues. Further, the two projects we recommend undertaking will require extensive resource allocation. The following elaborates on the above mentioned four projects.

Liability and Revenue Recognition

Revenue recognition and attendant liability questions have come to the fore as a result of recent interpretations by both the SEC staff and the Emerging Issues Task Force. In many cases these events have resulted in uncertainty in practice as to appropriate accounting treatment, as well as income statement display, where long standing industry practice was consistently followed. The SEC staff's recent rejection of the EITF's multiple elements revenue recognition model makes a relatively comprehensive revenue project an all but certain addition to the FASB's agenda. (The FRC believes that multiple elements issues should be addressed conceptually rather than on an individual product basis and, therefore, rules such as AICPA SOP 97-2 pertaining to software revenue recognition would have to be re-deliberated.) Further, with respect to the SEC staff's interpretations, the profession was unable to participate in the deliberations as it otherwise would have had they been in the sunshine. We view the current FASB agenda decision process as an opportunity to allow all members of the profession and users of financial statements to provide meaningful input into a codification of revenue recognition criteria, and related balance sheet classification of credits, that will represent an extensive set of principles with sufficient detail to allow answers to the most prevalent practice questions. Such a project would most likely cut across all industries, including specialized areas such as insurance, leasing, motion pictures, etc. That outcome is acceptable given the potential reward of improving upon the present uncertainties in practice.

We also note that the FASB continues to struggle with difficult issues involving the definition and measurement of liabilities. Rather than moving forward with a narrow scope project that will reconsider EITF Issue 94-3, we believe the Board needs to spend more time on the conceptual and other issues that affect this as well as many other current practice issues. It will be confusing and not helpful to practice should the Board continue to issue individual standards that are not consistent with others on such basic matters.

FASB Codification/Simplification

Our view of this subject is that it should be bifurcated into a process improvement effort as well as a separate codification project. One process improvement step would be to supersede related literature when a new standard is issued. For instance, rather than note in an appendix which EITF issues are left intact, supercede the EITF issues and carry them forward into the new standard. With respect to complexity and operability of more controversial standards, the FASB should endeavor to address in greater depth operational problems identified during comment periods, attempt more thorough field testing before finalizing standards and provide more time before effective dates.

We believe the codification project should be performed more mechanically than conceptually. Centralizing all levels of GAAP into one comprehensive format would be

an enormous time saving asset for the accounting profession. This project would allow the removal of redundancies contained in overlapping standards, interpretations, EITF issues and staff announcements.

The prospect of reducing disclosure overload is tantalizing. But, FRC strongly recommends that such effort be within the project scope only to the extent of choosing to sustain or eliminate a requirement. Modifications of existing requirements should not be re-deliberated.

Reporting Information about the Financial Performance of Business Enterprises

The FRC does not believe this project is necessary to bridge the gap between financial information contained in company press releases, presentations to analysts and other supplemental media, and GAAP financial statements. In most cases, press reports of companies' explanations of earnings compare back to the GAAP income statements as the benchmark. Thus, the GAAP financial statements are doing their job. In addition, the notion of developing key financial indicators that would compare different enterprises' performance does not survive across differing industries. Furthermore, attempts to define operating vs. non-operating, or core vs. non-core, income are doomed to failure by the infinite variety of circumstances surrounding performance events. Finally, the FRC would strongly object to efforts that would result in requiring the direct method of cash flow presentation, or a performance statement patterned after a cash flow statement that effectively reports, for example, unrealized Statement 115 or Statement 133 gains/losses presently as income. We fear that such efforts would promote partial fair value accounting before a full fair value model can be developed and proven.

The FRC realizes that if the FASB accepts our recommendation and does not adopt this Proposal as we recommend, the U.S. may be disadvantaged in its ability to participate in the development of the IASB's performance reporting project. This is not an inconsequential con to our recommendation. However, given the environment we discussed at the outset of this letter, the need to focus resources on more productive proposals and our belief that certain of this Proposal's deliverables will be difficult if not impossible to achieve, we believe it is in the best interest of the FASB to accept our recommendation and not pursue the project at this time.

Disclosure of Information about Intangible Assets not Recognized in Financial Statements

Intellectual property valuation is clearly a major discussion topic in business. We are, however, unclear whether this project will cost-effectively advance understanding and valuation of intangibles. Our initial reaction is that it will duplicate information already provided by public companies outside the financial statements, such as Form 10-K description of business and MD&A disclosures. It also appears to us premature to move forward with additional financial statement disclosure in the face of the FASB's recently issued report on companies' disclosures of non-financial information. We suggest that time be given to see if that report has an effect on the supplemental disclosures provided by companies. The FRC believes improvement to supplemental

disclosures is far preferable to requiring new financial statement disclosures. A project requiring additional disclosures will raise serious concerns with respect to: the proprietary nature of required information, the subjective nature of any required valuations, the subjective nature of any required cost-based information on expensed development costs (that are affected by internal allocations and transfer pricing decisions), and the ultimate indictment of adding to disclosure overload and preparation costs without commensurate benefits. As a final note, we suggest that if the project is adopted, it include recorded intangibles to the extent any new requirements are not currently required under GAAP.

The FRC would be pleased to further discuss these views at your convenience.

Yours very truly,

John J. Perrell III
Chair
IMA Financial Reporting Committee