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Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7 - P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Lucas:

FASB Proposals for New Agenda Projects: Disclosure of Information about Intangible Assets Not Recognized in Financial Statements and Reporting Information about the Financial Performance of Business Enterprises

We welcome the opportunity to comment on the FASB's two proposals for new agenda projects, *Disclosure of Information about Intangible Assets Not Recognized in Financial Statements and Reporting Information about the Financial Performance of Business Enterprises*. These are timely issues that warrant the FASB's attention. For the reasons discussed in more detail below, we support the Board adding these projects to its technical agenda when resources become available.

Disclosure of Information about Intangible Assets Not Recognized in Financial Statements

The FASB's proposal states that a potential FASB project on disclosure about intangibles would focus on improving information about intangible assets that are seen by many as increasingly important to business success but are not currently recognized as assets in financial statements. The principal goals of the project would be to make new information available to investors and creditors and to improve the quality of information currently being provided. A secondary goal of the project would be to take a first step in what might become an evolution toward recognition in an entity's financial statements of internally generated intangible assets.

Is there a need for the FASB or others to comprehensively address the reporting of information about intangibles of a business enterprise? If yes, should the FASB take on such an effort or defer to others? If so, to whom?

We agree with those who suggest that the important value drivers in the new economy are largely nontraditional and that accounting standards have not addressed these fundamental changes in value measures. We believe that a project that addresses disclosures about intangible assets would be a timely, relevant addition to the FASB's agenda. Thus, we believe that the Board should place the topic on its agenda in the near future, when it completes current agenda projects and Board and staff resources are available.

Is the proposed scope of such a project as described in this Proposal insufficient, appropriate, or too ambitious? One alternative would be a broader scope that might encompass other constituent recommendations, for example, (a) disclosure about nonfinancial indicators, management's key goals for them, and related risks, strategies, efforts, and accomplishments in meeting its goals or (b) recognition and measurement of certain internally generated intangible assets. Another alternative would be a limited-scope project that focuses solely on, for example, disclosure of expenditures to develop and maintain unrecognized intangible assets or on disclosure of information about research and development activities.

We believe that the scope of the project as defined in the proposal is appropriate (that is, the scope would be limited to the format and content of disclosure about unrecognized intangible assets that would have been recognized if acquired separately or in a business combination, and acquired in-process research and development assets). We do not support either the broader scope or the limited-scope alternatives described above as appropriate starting points for the Board's efforts. However, we believe that it may be difficult for the FASB to keep the scope limited to the format and content of disclosure and note that the proposal acknowledges that the Board contemplates addressing both how to define intangible assets and whether enterprises should disclose the values of those assets. We urge the Board not to underestimate the extent of the debate that will ensue on definitional and measurement issues, both of which we believe are critical to the success of the project. We believe that it would be difficult for the Board to issue a standard that required disclosures about the values of intangible assets without providing guidance about how to measure those amounts. We agree with the Board that the absence of a clear cause and effect relationship between most expenditures and the resulting values of intangible assets presents challenges in resolving what information enterprises should disclose.

Should specific issues identified above be excluded from the scope of the proposed project on reporting information about intangibles? If yes, for each specific issue, please indicate whether it should be addressed as part of another FASB project, by others, or not at all and why.

As discussed above, we support the scope and the “Principal Issues” that the Board outlined in the proposal. We reserve judgment about the “Other Issues” (voluntary versus required, and frequency of disclosures) that the Board identified in the proposal until we can study the outcome of the Board’s deliberations. We also reserve judgment on the appropriateness of the Board’s secondary goal (the evolution toward recognition in financial statements of internally generated intangible assets) until we can evaluate the Board’s work on the critical definitional and measurement issues.

Should specific issues not identified above be addressed as part of the proposed project on reporting information about intangibles? If yes, please describe the specific issue and indicate why it is sufficiently crucial that it should be addressed as part of the proposed project.

We believe that a critical factor underlying the success of the Board’s proposal is the extent to which the disclosures about intangibles are auditable and verifiable. The August 2000 Report and Recommendations of the Panel on Audit Effectiveness included a recommendation that the Auditing Standards Board (ASB) “establish a protocol to assess the auditability of proposed accounting standards prior to their issuance.” Beginning early in the project’s history, we urge the FASB to work with representatives of the ASB and others in the accounting profession to assess the auditability of its proposal.

Reporting Information about the Financial Performance of Business Enterprises

The FASB’s proposal states that at a minimum, the objective and scope of an FASB project on reporting financial performance would focus on form and content, classification and aggregation, and display of specified items and summarized amounts on the face of all basic financial statements, both interim and annual.

Is there a need for the FASB or others to comprehensively address the reporting of information for assessing the financial performance of a business enterprise? If yes, should the FASB take on such an effort or defer to others? If defer to others, to whom?

In view of the absence of common definitions of the elements of financial performance, key financial measures, or indicators; and the recent criticisms from investors, regulators, and others about the reporting of pro forma disclosures, we believe that there is a need for the FASB to undertake a comprehensive project to address reporting financial performance.

Is the proposed scope of such a project as described in this Proposal insufficient, appropriate, or too ambitious? Two somewhat broader alternatives are noted on page 2 of the Proposal.

We agree with the Board's assessment that the minimum scope of a prospective project should be to explore whether certain line items, subtotals, and totals should be defined in standards and required to be displayed in financial statements, including interim statements. However, we note that unless the Board expands the scope to the broader second approach (determining how key financial metrics should be calculated if they are presented, but not requiring them in financial statements) there will continue to be noncomparability among enterprises in their presentation of financial performance. Furthermore, we support the Board's decision not to address in the scope of this proposal (1) matters of recognition and measurement in financial statements and (2) nonfinancial measures that might be useful in assessing the performance of a business enterprise.

Should specific issues be excluded from the scope of the proposed project on reporting financial performance? If yes, for each specific issue, please indicate whether it should be addressed as part of another FASB project, by others, or not at all and why.

The FASB's proposal identified six issues that are among the key issues that the Board would consider in this proposed project (1) identifying key financial measures; (2) determining whether changes to existing standards are necessary to support the display of new financial measures; (3) determining whether it is necessary to distinguish between the effects of core and noncore activities; (4) considering whether key measures of components of earnings have complementary key measures of components of cash flows; (5) determining the extent to which the components of changes in fair value of financial instruments are a major factor in evaluating financial performance; and (6) determining whether alternative presentations of measures of comprehensive income affect a user's understanding of that measure.

As a starting point, we believe that it is appropriate for the Board to evaluate all six of the issues that the Board identified in the proposal in the scope of the project. Ultimately, however, issues (5) and (6) may be better dealt with in projects on financial instruments and comprehensive income, respectively.

Should specific issues not identified above be addressed as part of the proposed project on reporting financial performance? If yes, please describe the specific issue and indicate why it is sufficiently crucial that it should be addressed as part of the proposed project.

We have the same concerns about auditability and verifiability of financial performance measures that we expressed in our comments on the proposal on disclosures about intangible assets. We urge the Board to work with representatives from the ASB and the accounting profession on both of these proposals.

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If you have questions about our response or wish further to discuss any of the matters addressed herein, please contact John Guinan at (212) 909-5449.

Very truly yours,

KPMG LLP

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