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From: Pam Reid [mailto:pamreid@alum.mit.edu] Sent: Tuesday, September 25, 2001 10:58 AM

To: director@fasb.org

Cc: blev@exchange.stern.nyu.edu

Subject: RESPONSE re: Proposed Project on Disclosure of Information About Intangible Assets Not Recognized in Financial Statements

Letter of Comment No: 39

Date Received: 9|25|01

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September 25, 2001

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

Dear Tim:

Re: Proposed Project on Disclosure of Information About Intangible Assets Not Recognized in Financial Statements

It is my pleasure to respond to your request for comments on the above proposal. I apologize for the tardiness of my reply and hope that you will consider my opinion nonetheless.

I believe that establishing a clearer understanding of intangibles and a set of standard metrics to measure them is critical to developing an accurate view of the state of health of many companies and, moreover, the national economy. Therefore, I strongly urge FASB to initiate this project.

I have responded to your questions below:

1. Is there a need for the FASB to comprehensively address the reporting of information about intangibles...?

First, I would briefly reiterate the points made by Baruch Lev in his letter to you of August 19. The total amount being spent in the US on intangible assets is enormous. The gap between book and market value continues to widen, especially for technology stocks. Financial aspects of the intangible assets that are the likely drivers of this gap are inadequately reflected in required financial statements. I personally believe that this lack of understanding and reporting contributes significantly to the boom-and-bust cycles that we have recently seen in high tech stocks.

As a manager at several high-technology businesses, a consultant, an

entrepreneur, and an individual investor, I frequently see the impact of out-dated reporting requirements that do not adequately take intangible assets into account. Firms and individual investors do not have available the information needed to make good, well-informed decisions.

One of my particular interests is in the understanding and measurement of human capital. For example, in making decisions about lay-offs, companies should have available information on human capital costs. If businesses understood the costs of creating new human capital, they might choose to retain more employees. If companies were required to report standard information on human capital, investors would be able to compare performance between companies on key attributes such as employee retention rates and average 'start-up' costs per new employee. These measurements would be useful in many industries, but particularly for those that rely heavily on the intellectual capital of their employees.

I believe that FASB is the logical leader for this project – especially as corporations are unlikely to begin reporting on these matters on their own and, in any case, need leadership in determining specific, commonly-defined measures to report.

2. Is the proposed scope of project insufficient, appropriate, or too ambitious?

Overall, the proposed scope seems reasonable. Addressing disclosure and recognition in two separate steps will give all parties time to consider the implications of measurements in this new area. Voluntary disclosures on an annual basis would also seem to be a reasonable first step.

However, I believe that the scope should be extended to include some non-financial measures, at least in the area of human capital. Although these measures may be non-financial, they are easily countable and non-subjective. For example, if the costs of acquiring human capital were to be capitalized and depreciated over time, companies would have to write-off any undepreciated capital when employees left the company — either voluntarily or otherwise. Though I don't think that it makes sense at this time to capitalize and depreciate these expenses, it would be beneficial to have consistent metrics from all companies on employee acquisition and turnover.

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

Again, I agree with the position of Baruch Lev that valuation should not be

a core issue to be addressed in this project. Understanding the spending on intangibles would be a more than adequate first step. Plus, the subjective nature of assigning a value to intangibles could contribute to both highly-inflated balance sheets and wide variances in value from quarter to quarter.

4. Should specific issues not identified above be addressed?

As you might infer from my previous comments, I believe that measurements around human capital are critical for a good understanding of performance of many companies. Although the proposed scope does not necessarily exclude this issue, I want to explicitly state the need to include it.

Once again, I would urge FASB to undertake this project due to the wide-ranging impact that it would have on both businesses and investors.

If these comments have been helpful to you, I would like to offer my participation in the working group for this project. In addition to a wealth of business experience and use of financial reporting and analysis, I have specific research and analysis skills that would be helpful in designing surveys and other instruments for gathering data for the project. My educational background is in economics, mathematics, and management with a MS from the Sloan School at MIT. I recently completed a business-modeling project for a major software company that dealt, in part, with metrics needed to understand and manage investments in human capital. And, I will be presenting "A Proposed Framework for Measuring the Asset Value of Intellectual Capital" at a conference on Enterprise Intelligence in December.

I look forward to hearing from you on this project.

Thanks and regards, Pamela A. Reid

cc: Baruch Lev