

October 4, 2001

Letter of Comment No: 45 File Reference: 1123-001

Date Received: 10 4 01

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

RE: Proposal For a New Agenda Project

Disclosure of Information About Intangible Assets Not Recognized in Financial Statements (the Proposal)

Dear Mr. Lucas:

The GAAP Financial Reporting Principles Subcommittee (the Committee) of the American Council of Life Insurers (ACLI) appreciates the opportunity to provide its comments to the Financial Accounting Standards Board concerning the above Proposal. The ACLI is the principal trade association of life insurance companies, representing 426 members that account for, in the aggregate, 80 percent of the assets in the United States among legal reserve life insurance companies.

The ACLI does not believe that the need for the FASB, or others, to comprehensively address the reporting of information about the unrecognized intangibles of a business enterprise has been sufficiently demonstrated and, accordingly, does not support adding the project to the FASB's agenda.

The ACLI acknowledges that intangible assets are important value drivers in a business, however we are not aware of any financial valuation model that could be used to develop values of intangible assets on a consistent, reliable, and repetitive basis (current accounting practice requires impairment tests, not ongoing valuations, of reported



intangible assets). Further, the value of an intangible is highly dependent upon the future utilization of the intangible. For example, an enterprise may have

developed product distribution channels that are of significant value to one potential acquirer, but not to another potential acquirer that has similar distribution capabilities. Any valuation model would be much too reliant on projected data (and the inherent assumptions, including possible future utilization of the intangible), and would, at best, merely produce a range of values that have little relevance to readers of the financial At worst, it could create extremely misleading financial information. statements. Moreover, how does an entity arrive at a complete list of intangible assets? As an example, it would appear, based on the tragedy of September 11, 2001, that entities in our industry with home offices or major offices outside of the New York and Washington D.C. areas and in suburban areas may perhaps possess an intangible asset that those entities located in those metropolitan areas do not possess: one that relates to security and being a "less likely target". The point is that companies could dream up intangible assets; inherent therein is no concrete enforceable definition thereof. Existing Generally Accepted Accounting Practices already addresses the reporting and recognition of intangible assets. We believe the disclosure requirements of FASB Statement No. 141, Business Combinations, and FASB Statement No. 142, Goodwill and Other Intangibles, appropriately addresses the reporting of information about intangibles.

Most importantly, we do not believe that general-purpose financial statements are intended to provide all-inclusive information to the potential investors or acquirers of a business. Adding the value of intangibles to the disclosures or to the primary financial statements would not diminish the necessity for due diligence work by qualified financial analysts, and would, in many cases, only add to the obfuscation of financial results.

We would also point out that disclosing the existence of competitive advantages, proprietary information, or other intangibles actually has the potential of damaging the business enterprise. Placing a value on, and describing, such items in the notes to financial statements only increases that possibility.

In the section of the request for comment containing the statement of the problem, the FASB expresses concern over the concept of comparability. The Committee respectfully submits that comparability in all cases will not, and should not, be achieved. For example, as mentioned earlier, comparable distribution systems will have non-comparable values, depending upon the expected future utilization of those systems. When dealing with similar issues in Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, the FASB recognized that companies often are not comparable and further noted that "Both relevance and comparability will not be achievable in all cases, and relevance should be the overriding concern".

We thank you for giving us the opportunity to comment and would be pleased to discuss our comments with the Board or its staff at its convenience.

Sincerely,

Paul S. Graham, III

Managing Actuary

American Council of Life Insurers