PRICEWATERHOUSECOOPERS

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September 19, 2001

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: FASB Proposed Agenda Projects: Reporting Financial Performance and Disclosure about Intangible Assets not Recognized in Financial Statements

Dear Mr. Lucas:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) proposed agenda projects: reporting financial performance and disclosure about intangibles. This letter and its attachment summarize our views on those proposed projects and contain our recommendations regarding project priorities. Attachment I includes responses to the specific questions contained in the proposals.

Reporting Financial Performance

We believe that the subject of reporting financial performance should be addressed comprehensively by the Board and thus we support adding a project on this subject. The proposed minimum approach is appropriate at this time as the initial project of a longer-term comprehensive project. However, we encourage the Board to consider the need to provide guidance on how key financial metrics should be calculated, in order to promote a level of consistency among companies regarding the information presented. We also recommend that the Board work in harmony with standard setters outside of the United States, including the International Accounting Standards Board (IASB), in order to promote, to the extent possible, a consistent body of standards in this area. Finally, we encourage the Board to consider the issues noted in the attachment, particularly the discussion of the terms "core" and "noncore."

Disclosure of Information about Intangible Assets not Recognized in Financial Statements

We support adding a project on this subject. We believe that making information available about unrecognized intangibles would improve the quality of information currently being provided to investors and other financial statement users. Improving the format and content of disclosures about unrecognized intangible assets should be addressed comprehensively by the Board. We believe the proposed scope focusing on disclosure of intangible assets that are not recognized in the statements of financial position, but would have been recognized if acquired either separately or in a business combination, is appropriate. We also believe that valuing unrecognized intangible assets should be a longer-term goal of financial reporting. Accordingly, the Board should be satisfied with the cost/benefit aspects associated with disclosing such values as part of this project. Finally, we recommend that the Board consider disclosures of nonfinancial indicators about intangible factors, particularly those that have a significant impact on the value of a company (i.e., value drivers).

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Priorities

We understand that the Board also plans to consider adding an agenda project on revenue recognition. We continue to believe that a project on performance reporting should be the Board's top priority. However, revenue recognition is an important area as well and, in our view, deserves equal attention with the planned project on intangible assets.

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If you have questions regarding our comments, please contact James F. Harrington at (973) 236-7203 or Kenneth E. Dakdduk at (973) 236-7239.

PricewaterhouseCoopers LLP

Attachment I

FASB Request for Comments on Proposed Agenda Projects
Reporting Financial Performance
Disclosure about Intangibles

PricewaterhouseCoopers LLP's responses to specific questions raised for comment

Reporting Financial Performance

***Question 1:* 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?**

We believe there is a need and that it is appropriate for the Board to undertake such a project. As part of the Board's international partnership with other standard-setters, (e.g., the IASB and standard-setters in the United Kingdom, Australia, etc.), we encourage the Board to coordinate its efforts with those standard-setters in order to promote, to the extent possible, a consistent body of standards in this area. We believe it is important, however, for the Board to guard against the possibility that such harmonization will detract from the project's timely completion. The Board's goal should be to achieve a balance between its duties as a partner in the international standard-setting arena and the timely completion of this project. Given the importance of this project, we recommend the Board strive to complete it sooner than the proposed three to four years.

***Question 2:* 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 this Proposal.**

We agree with the proposed minimum approach as an initial project of a longer-term project to comprehensively address reporting on financial performance. To promote consistency among companies regarding the information presented, however, we believe the Board may need to consider providing guidance on how certain key financial metrics should be calculated. In this regard, the Board will need to be mindful of the fact that companies tend to utilize different financial metrics to measure their performance, depending on the industries they operate within. A one-size-fits-all approach may not work well across industry lines. Indeed, the Special Committee Report of the Business Reporting Research Project, entitled *Improving Business Reporting: Insights into Enhancing Voluntary Disclosures,* which was released earlier this year, asserts that such an approach will not work even for companies in the same industry because each company is unique. Accordingly, at a minimum, we believe the Board will need to be cognizant of variations among industries regarding the key financial metrics used by companies in those industries to measure their performance.

***Question 3:* Should specific issues identified above 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.**

We believe Issue 5 should be excluded from the scope of this project. In our view, the amount of interest or other items of income or expense that contribute to the total change in fair value is not a major factor in evaluating financial performance. Further, we have doubts about the predictive value of fair value interest information and are concerned that comparability among entities can be affected merely by the use of different bases (e.g., daily, weekly, monthly, or quarterly) to determine the information. We therefore recommend that this issue be excluded from the scope of this project and deferred pending the development of a more comprehensive model for reporting financial performance that better defines operating profits and the meaning and presentation of changes in the fair value of financial instruments.

Question 4: **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 believe it is desirable to distinguish between the effects of core and noncore activities (Issue 3 in the proposal), and we would support a model that differentiates between these two measures. However, we believe it is critical to first adequately define the terms "core" and "noncore." The proposal implies that a core activity is an operating activity and a noncore activity is a nonoperating activity. We are not sure it is that simple. For example, the report of the AICPA Special Committee on Financial Reporting suggests that core activities are usual and recurring activities, with the term "usual" meaning ordinary or typical for the entity and the term "recurring" meaning the activity is expected to occur again. However, that report acknowledges that some in the business community interpret core activities to mean "major, critical, or central operations as opposed to peripheral or incidental operations" and also acknowledges that the Special Committee used the term differently. Others may think of core activities as merely excluding one-time events. Still others may view core activities to be "persistent" activities. Although all of these views may lead one to the same conclusion about, for example, what items of income should make up "core earnings," they could also lead to different conclusions. Moreover, the Special Committee, in the model and illustration of business reporting contained in the appendices to its report, focused on disaggregating the information in the financial statements into core and noncore items, e.g., core and noncore assets, liabilities, revenues, expenses, and cash flows, rather than core and noncore activities. Accordingly, establishing a consistent understanding of these terms and a consistent approach to applying them would seem to be an important first step in this project.

We also suggest that the Board consider the implications of this project on Extensible Business Reporting Language (XBRL), which is the proposed standard for exchanging financial documents on the web.

<u>Disclosure of Information about Intangible Assets not Recognized in Financial Statements</u>

Question 1: **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 it to others? If so, to whom?**

We believe there is a need to address the reporting of information about intangibles of a business enterprise and we support the FASB adding such a project to its agenda. Making information available about unrecognized intangibles would improve the quality of information currently being provided to investors and other financial statement users.

Question 2: **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 the scope of the project is generally appropriate. We recommend, however, that the Board be satisfied that disclosing the values of unrecognized intangible assets, which the proposal identifies as a possible disclosure that might be required as a result of this project, will meet a cost/benefit test. The valuations that would be needed to estimate those values can be complex and may be costly to develop, particularly the cost of developing the information needed to perform initial valuations. Further, valuation methodologies can vary and may produce different results, leading to inconsistencies among various companies in estimating values and in the amounts disclosed. We believe that valuing unrecognized intangible assets should be a longer-term goal of financial reporting. In a project that is aimed at disclosure only, requiring values to be disclosed could unnecessarily complicate compliance efforts, particularly given the lack of adequate guidance from the Board on valuation methodologies. For those reasons, we believe it is important for the Board to be satisfied that requiring values to be disclosed at this stage would pass a cost/benefit test.

We also recommend that the Board include as part of this project disclosures of nonfinancial indicators about intangible factors, particularly those that have a significant impact on the value of a company (i.e., its value drivers).

Question 3: **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.**

We believe the specific issues identified are appropriate for this project.

Question 4: **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.**

Refer to the cost/benefit issue cited in our response to Question 2.