

Letter of Comment No: 23.

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September 19, 2001

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

Re: Proposal for a New Agenda Project, Disclosure of Information About Intangible
Assets Not Recognized in Financial Statements

Dear Mr. Lucas:

The Association for Financial Professionals (AFP) welcomes the opportunity to comment on the Proposal for a New Agenda Project, *Disclosure of Information About Intangible Assets Not Recognized in Financial Statements*.

The membership of our Association currently includes approximately 14,000 financial executives employed by over 5,000 corporations and other organizations. Our members represent a broad spectrum of financial disciplines and their organizations are drawn generally from the Fortune 500 and middle-market companies in a wide variety of industries, including manufacturing, retail, energy, financial services, and technology. AFP supports members throughout their careers with research, continuing education, career development, professional certifications, publications, representation to key legislators and regulators, and the development of industry standards.

AFP supports the proposal and agrees that it is important to improve the information about knowledge assets and intellectual capital intangibles. We believe that investors and creditors need more information to better evaluate companies and that it is inconsistent to record goodwill when it is acquired through a business combination but not when it is internally generated. We agree that disclosures about unrecognized intangibles would allow investors to make more complete comparisons and believe that the disclosures should be required on an annual and interim basis. We strongly urge the Board, however, to guard against proposing overly complex and subjective evaluation methodologies that would be cumbersome to implement and subject to inconsistency and lack of objectivity.

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## Comments Addressing Major Questions in Request for Comments

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 to others? If defer to others, to whom?

AFP believes that there is a need for FASB to comprehensively address reporting of information about intangibles of a business enterprise.

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 that the proposed scope is too ambitious. The proposed scope focuses on disclosure about intangible assets that are not recognized on the balance sheet but would have been recognized if acquired separately or in a business combination. It also would include in-process research and development (IPRD) assets that under FASB Interpretation No. 4 Applicability of FASB Statement 2 to Business Combinations Accounted for by the Purchase Method are expensed on the day that they are acquired.

We do not agree that the proposed scope should include IPRD assets. The issues associated with IPRD, and research and development in general, are significant and the Board should address them in a separate project on research and development.

AFP recommends that the Board limit the scope of the project to intangible assets that can be more objectively measured, such as workforce and brands and trademarks. The sustained growth of mergers and acquisitions has resulted in establishment of an industry that provides valuations of companies to be acquired. We strongly believe however that prescribing valuation and reporting requirements for the large number of potential intangibles, as listed in Part 2 of Chapter 4 (page 69) of the FASB Special Report, *Business and Financial Reporting, Challenges from the New Economy*, would impose a significant burden on preparers and auditors of financial statements and may result in inconsistent and subjective data.

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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 noted above, we believe that the Board should exclude IPRD from the scope and address it in a separate project on research and development.

On behalf of our 14,000 members, the AFP genuinely appreciates the opportunity to comment on the FASB proposal. If you have any questions, please contact Gregory Fletcher, AFP's Director of Financial Accounting and Reporting, at (301) 961-8869.

Sincerely,

Patrick M. Montgomery, CCM, CPA

Vice President, Finance

ULLICO Chair

AFP Government Relations Committee

James R. Haddad, CCM

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