

THE UNIVERSITY OF TEXAS AT DALLAS

SCHOOL OF MANAGEMENT, JO43; RICHARDSON, TEXAS 75083-0688 TEL: (972) 883-4438 FAX: (972) 883-6811 sradhakr@utdallas.edu

Suresh Radhakrishnan Associate Professor

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

Letter of Comment No: [4]
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Dear Mr. Lucas:

Re: Comments on the proposed FASB projects

Enclosed please find my comments on the proposed projects, i.e., "Disclosure information about intangible assets not recognized in financial statements" and "Reporting information about the financial performance of business enterprises."

In my opinion, the project on "Disclosure information on intangible assets not recognized in financial statements" would be more timely and appropriate for consideration by the Board.

If you have any questions, please contact me.

Thanking you

Yours sincerely

Suresh Radhakrishnan September 18, 2001

Disclosure information about intangible assets not recognized in financial statements

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 so, to whom?

There is a gap in the understanding of investors (and managers) about the implications and impact of intangibles on value and consequently, capital allocation. This has been documented by various research studies and the Special Report put out by Mr. Wayne Upton. Hence, there is an <u>urgent</u> need for FASB to undertake the project on intangible assets

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.

While, the proposed scope as described by the disclosure about intangible assets that are not recognized in financial statements would be a good start, it would also be very narrow. The alternative of providing supplemental disclosures on non-financial measures on market size and share, customer satisfaction, quality programs, break-up of R&D between basic, product development and process control, new product success rates, patent, trademark and citation statistics, brands and employee retention rates along with supplemental financial disclosures such as brand values and advertising and marketing efforts is more appealing. The advantage of supplemental disclosures are that (a) most if not all firms would have MIS that would capture these measures to assist managers to make operational decisions, (b) the non-financial measures would be verifiable and (c) no valuation and/or recognition assumptions will be required.

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.

All issues are in the scope are important. However, as stated earlier the recognition of intangible assets need not be addressed immediately. The ready availability of data on

non-financial measures would spur research activity that would help us understand the capital allocation decisions and value relevance of these measures. This understanding would be essential to embark on the valuation and recognition of intangible assets.

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.

The project could include aspects of management forecast with respect to the "hard non-financial" measures along with a comparison of the actual and forecast of the previous periods.

Reporting information about the financial performance of business enterprises

 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?

There is a need for FASB to address the reporting of information for assessing the financial performance because of the variety of measures and the nebulous definitions of the measures used in various voluntary and supplemental disclosures.

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.

The broader approach would help in making the language of the measures uniform. This is more important for checking the veracity of the measures reported by various financial portals.

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.

This project would make the definitions of some "key financial measures" uniform. Such "key financial measures" would be industry and enterprise specific. Hence, the issue of the identifying such measures should be kept at the broadest level.

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.