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# FIAC

## Financial Institutions Accounting Committee

Mr. Timothy S. Lucas  
Director of Research and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Dear Mr. Lucas:

### Re: Proposal for a New Agenda Project – Reporting Information About the Financial Performance of Business Enterprises

The Financial Institutions Accounting Committee (FIAC) is pleased to have the opportunity to provide you with our comments and observations related to the Proposal for a New Agenda Project - Reporting Information About the Financial Performance of Business Enterprises.

FIAC is a group of 14 financial professionals working in executive level positions in the thrift and banking industries and is sponsored by the Financial Managers Society. FIAC's primary responsibility is to evaluate accounting and regulatory matters that affect financial institutions.

We begin by acknowledging that the reporting of financial performance has evolved well beyond the information presented in the basic financial statements. In most instances, this evolution has added clarity to reported financial performance, while in other instances it has served to obfuscate it.

In most instances in which disclosures, such as "pro-forma earnings," have resulted in a reduction in the clarity of reported results, it is the complexity of the underlying operating results rather than a failure of the financial model or deliberate intent of management to mislead that is at the heart of the problem. In making this assertion, we put forth that shareholders, rating agencies, stock analysts, venture capitalists, and others, provide an effective and valuable market discipline that prevents companies from ranging too far afield in disclosing and discussing financial performance.

The "tech wreck" that has decimated large segments of the equity markets is an example of this discipline at work. After a period of what has been commonly referred to as "irrational exuberance" caused by a myopic view of operating results (e.g. focusing on revenues rather than earnings) investors, analysts and others have migrated back to a more traditional, comprehensive view of business enterprises. This return to the more traditional measures of performance was prompted not by a change in metrics. Rather, it was driven by a realization that the focus should return to the bottom line and not on hype.

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So that you do not get the wrong impression of our views from this example, we wish to put forth that the ability of the hype to influence the opinions of investors was not indicative of a failure of traditional financial reporting metrics. Rather, it was the result of an overemphasis and, in many instances, conscious disregard for the present measures of financial performance on the part of investors.

Given the demographics of the investors (especially age and business acumen, or lack thereof) who played a crucial role in this “irrational exuberance”, it is our strongly held belief that there was no culpability on the part of the existing financial model or metrics. Additional disclosures are of less than no value unless they are utilized by the readers of the financial statements. We hold that regardless of what was disclosed or how it was presented, the conscious disregard of business fundamentals by large segments of the investing public would have continued unabated.

Aside from short-term lapses, the discipline and influence exerted by the investment community over reporting and analyzing financial performance should not be minimized. We are concerned that this Proposal could lead to a financial performance reporting framework that adds complexity rather than clarity. We see a very real and significant risk that the required presentation of additional metrics would overwhelm many readers of financial statements. Additionally, regardless of how many additional disclosures are made, the infinite number of unique transactions that a company can enter into or be subjected to ensures that absent a knowledgeable analysis and full reading of the MD&A, there will always be a degree of difficulty in comparing one company with another.

Great care should be taken that the FASB does not undertake a project to define what constitutes financial analysis. Rather, the role of the FASB is to ensure that the required financial disclosures provide the raw data that can be used to build a financial analysis. Additionally, any initiative directed toward disclosure of financial data that does not presently appear in the basic financial statements would have to be industry specific to be of any value. In this regard the SEC and AICPA, through industry guides, have effectively promulgated such requirements.

Our responses to the four major questions posed by the Proposal are as follows:

Response 1: We do not feel that there is a need for the FASB to undertake this project. While not authoritative in nature, on April 26, 2001 the National Investor Relations Institute (NIRI) and Financial Executives International (FEI) released “best practices” recommendations for company issued earnings releases. These NIRI / FEI recommendations provide a sound framework for addressing the lack of clarity that has evolved through practice. The SEC has cited the NIRI / FEI best practices recommendations as a positive move in the right direction.

It is also our understanding that the SEC has begun issuing comment letters on the relative prominence of “pro-forma” earnings versus GAAP basis net earnings (also a NIRI / FEI best practice). It would be prudent to allow time for the discipline inherent in the financial markets and the influences such as the SEC and the NIRI / FEI recommendations to work before proceeding with this proposed project.

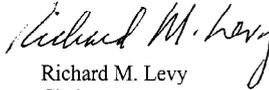
Response 2: Since we do not feel that there is a need for this project, we must conclude that any proposed scope is too ambitious. If the project does proceed, we would recommend the adoption of an approach that addresses only the structure and presentation of the existing basic financial statements and does not broaden in scope to encompass ratio presentation.

Response 3: As noted above, we feel that if the proposed project does proceed, its scope should be limited to structure, presentation and consistency in classifications among the current basic financial statements. Our position is that this project framework should have as its focus enhancement of the current financial statement framework as opposed to expansion of the scope and purpose of financial reporting.

To summarize, we feel that a distinction must be maintained between reporting financial performance and attempting to analyze it. The role of GAAP is the former, and should not be confused with the later.

Thank you for the opportunity to present our views on this Proposal.

Very truly yours,



Richard M. Levy  
Chairman

cc: Zane Blackburn, Office of the Comptroller of the Currency  
Timothy J. Stier, Office of Thrift Supervision  
Jeffrey P. Mahoney, Financial Accounting Standards Board  
Wynne E. Baker, Esstman, Patton & Harrell, PLLC  
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