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Dear Mr. Lucas

This letter contains our comments on the August 17, 2001 proposal for a new FASB agenda project, "Reporting Information about the Financial Performance of Business Enterprises: Focusing on the Form and Content of Financial Statements."

1. We support the Board adding to its agenda a project on reporting financial performance. This is consistent with our responses in the last couple of years to the annual FASAC survey of projects and priorities of the FASB and with our response to the 1999 G4+1 Position Paper: Reporting Financial Performance. For example, in commenting on the FASB's project on fair value and financial instruments in our response to the 2000 FASAC survey, we say "the Board should proceed with this important project in a deliberate way, considering the controversial nature of the topic. This project is well suited for international cooperation (with IASC and other national standard setters). As part of the project, the Board should consider using the Other Comprehensive Income classification as an evolutionary step. Also, this project will highlight the importance for the Board to rethink issues related to performance reporting." We see a relationship between this possible project and current or future FASB projects and believe this project could help find solutions to other issues down the road.

Further, in our August 28, 1996, comment letter on the exposure draft leading to FASB Statement No. 130, "Reporting Comprehensive Income," we expressed significant reservations about the limited scope of that document. In that comment letter, we recommended broadening the scope and addressing several of the issues that will presumably be addressed in this current proposal.

2. In our January 11, 2000, letter commenting on the G4+1 position paper, we state, in part, the following:

We believe that the Proposal Paper represents a significant advance in the development of an improved financial reporting framework that better responds to the information requirements of preparers and users of financial information. We support many of the conclusions presented in the Proposal Paper and commend the G4+1 for their efforts in stimulating further discussion and evolution of reporting standards for financial performance. We caution the IASC, however, that the Proposal Paper in its current form has weaknesses that require improvement before a more relevant mechanism to report financial performance can be implemented.

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The Proposal Paper presents the notion that users of financial statements require improved reporting of financial performance and centres its discussion on one 'comprehensive' statement. Although we acknowledge that a more comprehensive framework is required, we do not believe the focus of the Paper should be on the 'form' of the reporting. The Proposal Paper should first concentrate on the definition of financial performance and then develop a framework to respond to users' needs. Standard setters must improve their understanding of what users define as financial performance and only then determine the best way to report such performance. Providing users relevant information that they deem necessary to judge financial performance should be the starting point of developing financial performance reporting standards. Although effective reporting of financial performance may eventually evolve into presentation within a single statement, we believe the focus should be on properly identifying the components of performance. The format will be a natural progression.

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While we are not unduly troubled by the proposal to have one performance statement rather than two, we are concerned that information will be 'lost' in these changes. It currently is acknowledged that the profit and loss statement reports only 'realised' or 'earned' gains and losses. Items that cannot be described as truly earned or realised, 'valuation adjustments', are reported in other financial statements. We believe the difference between valuation adjustments and realised profits and losses is very important to users of financial statements. Accordingly, we believe distinguishing the two categories should be an important factor in developing the new performance statement or statements. We believe that in the current reporting environment the concept of realised versus unrealised profits is in need of revision and maintain that users of financial statements do make a distinction between the importance of 'what is earned' and 'what is a valuation adjustment'.

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Regulatory and governmental agencies are important and influential users of the financial statements prepared by enterprises. Typically these agencies require enterprises to present financial information in a defined format. Accordingly, if significant changes are proposed to the manner in which financial performance is reported, consideration must be given on how to minimise / eliminate differences with regulatory / governmental reporting requirements. Preparation of financial information under duplicate / different reporting regimes will be expensive, time consuming and potentially lead to misinterpretation of financial information.

3. Based on reading the project proposal, we are somewhat confused about the scope. Would it or would it not, at least in part, address the same issues discussed in the G4+1 paper? We hope that it would. Page 4 of the proposal states that "(h)owever, many issues about the reporting of comprehensive income remain, including those discussed in paragraphs 30 – 51 of Concepts

Statement 5 about the distinctions among net income, earnings, and comprehensive income, and paragraph 57 of Statement 130 about (a) whether all items that are or will be recognized under current and future accounting standards as items of comprehensive income should be reported in a single statement (of financial performance), and (b) how the total amount of comprehensive income should be labeled or described.”

We could not tell whether the words “many issues...remain” meant that the matters described above would be left to another project or this one. We strongly hope that they will be addressed in this current project.

4. We support what is called the “minimum approach.” We do not support a broader approach that also involves how key financial metrics should be calculated if they are presented or a still broader approach that would require business enterprises to provide certain specific financial metrics, including ratios, in financial statements, in notes to financial statements or, perhaps, as supplementary information. These broader approaches seem more related to financial analysis than to financial reporting. Further, we would note that even the so-called “minimum approach” is quite broad and ambitious.
5. We agree international harmonization is critical.
6. We are not convinced that this project should involve reconsideration of FASB Statement No. 95, “Statement of Cash Flows.” We understand the relationship, but the broader the project is defined, the more difficult it will be to get it done on a timely basis.
7. We saw no mention of the recommendation of Financial Executives International and the National Investors Relations Institute on reporting proforma amounts and the recommendation to reconcile to net income. We also understand that the SEC staff asked the AICPA to consider a project on performance indicators, which might include some of the elements of the FASB’s proposed project. We are hopeful the FASB will coordinate with any AICPA activity in this regard.

We would be pleased to discuss our comments further with the Board or staff.

Very truly yours,

*Arthur Andersen LLP*