

Accounting Standards Board - Canada

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FASB Proposal for a New Agenda project

REPORTING INFORMATION ABOUT THE FINANCIAL PERFORMANCE OF BUSINESS ENTERPRISES

This memorandum responds to questions raised in the request for comments issued by the FASB on a proposal to add a project on financial performance to its agenda.

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 it to others? If defer to others, to whom?

Users of financial statements and standard setters have for some time now been aware of the need to address the reporting of information for assessing the financial performance of a business enterprise. The project proposal highlights a number of these sources, including the 1994 AICPA Special Committee report, the 1993 AIMR report and work undertaken by the former G4+1 and national and international standard setters. Also, it highlights the increasing dependence being placed by analysts, and other users of financial statements, on alternative performance measures, such as EBITDA, operating cash flow, etc. and the undue importance presently placed on "bottom line" income statement performance.

We believe that there is ample evidence to support the need to address the reporting of information for assessing the financial performance of a business enterprise and that, ideally, this should be undertaken at an international level. Without the FASB's active involvement in such a project, international consensus will be difficult to achieve. Therefore, we believe that it is essential that the FASB play an active role in such a project and not defer it to others. The Canadian Accounting Standards Board (AcSB) has identified this project as important to it and will monitor its progress. Active involvement by the FASB will make it easier for the AcSB, and perhaps other standard setters, to address the project in a meaningful way.

2. Is the proposed scope of such a project as described in this proposal insufficient, appropriate, or too ambitious?

The proposal describes the proposed scope as follows:

- (i) The minimum approach tentatively adopted by the Board ... would explore whether certain line items, subtotals, and totals should be defined in standards and required to be displayed in financial statements, including interim statements. Line items and amounts would include those related to metrics commonly used by investors and creditors in assessing financial performance.
- (ii) A broader approach that also involves determining how key financial metrics should be calculated if they are presented, but not requiring them in financial statements.

- (iii) 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 financial statements.

We believe that the project proposal identifies the key issues that should be addressed and that the minimum approach tentatively adopted by the FASB is appropriate.

. The CICA Task Force to Review the Recommendations of the AICPA Special Committee on Financial Reporting noted, in June 1995, that a high priority should be “to develop a revised standard for the content and presentation of the income statement.” [Task Force View IV.7]. The Task Force also noted: “standard setters should address ... cash flow per share and the format for the statement of changes in financial position.” [Task Force View IV.4]. Since that time, the AcSB staff closely followed, and participated in the development of the G4+1 and other efforts in this area.

We believe that the scope of the project should not be so large as to risk a lack of focus on the most important issues. Other issues might be usefully considered in a second phase of the project.

We also believe that international convergence would be assisted if the FASB project is similar in scope to that of the project being adopted by the IASB.

In our view, the project should focus on consistent determination of the key financial statement line items that are used in determining financial metrics, and the best manner in which to display them (i.e., approach (i)), without going further to require certain metrics to be calculated in particular ways, or to be presented in financial statements or otherwise.

- 3. Should specific issues ... 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.

Other than our comments on the scope, above, we have not identified specific issues that should not be addressed.

- 4. Should specific issues *not* identified ... 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.

The first key issue in the project proposal is to identify what are the key financial measures (or indicators) that investors, creditors, and others use to assess and compare the performance of different enterprises in making rational investment decisions. We support this objective, but note that it is also important to look to the future and consider not only those key measures that are used today, but also those that are likely to be useful in the future. For example, changes in fair value might be critical to analyzing the performance of an enterprise, yet few users of financial statements have developed key financial measures to assess such performance today. The project should be open to future needs. With regard to the third key issue in the project proposal, which asks whether it is desirable to distinguish between the effects of core (operating) and non-core (non-operating) activities we note, again, the views of the CICA Task Force to Review the

Recommendations of the AICPA Special Committee on Financial Reporting which stated: "This [a revised standard for the content and presentation of the income statement] should include segregation of recurring and non-recurring components, considering alternatives in addition to the Jenkins proposal for core earnings." [Task Force View IV.7] We believe that it might not be productive to attempt to distinguish core from non-core activities, but that other forms of income statement presentation might provide equally useful information to financial statement users to assist with projection of future cash flows. The work of the G4+1 and former IASC Steering Committee on Reporting Financial Performance should be considered in this regard.

We believe that it is also essential that this project reconsider the merits of separate presentation of a Statement of Other Comprehensive Income. The AcSB sees little, if any, conceptual justification for such a statement and has resisted its introduction in Canada. We believe that this is an essential issue to be addressed in this project.

Additional comments

We believe that the proposed timeframe for the project of about three to four years is about right. However, we stress that several aspects of this project are likely to prove critical to the acceptance of other accounting standards, particularly those on fair value of financial instruments. We believe, therefore, that it is critical that this project proceed promptly, and that it is more likely that key aspects of the Reporting Financial Performance project will need to be accelerated, than delayed.

The AcSB is keenly interested in this topic and is prepared to play an active role. We would be most willing to assist the FASB in any way possible, should that be desirable.