



Letter of Comment No: 11
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September 18, 2001

Mr. 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, *Reporting Information About the Financial Performance of Business Enterprises: Focusing on the Form and Content of Financial Statements*

Dear Mr. Lucas:

The Association for Financial Professionals (AFP) welcomes the opportunity to comment on the Proposal for a New Agenda Project, *Reporting Information About the Financial Performance of Business Enterprises: Focusing on the Form and Content of 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 for the new agenda project. However, we strongly urge the Financial Accounting Standards Board to limit the number of specific line items, subtotals, totals, and disclosures that a new standard would require companies to report. We agree that many companies are focusing on performance measures other than net income such as operating earnings; earnings before interest, taxes, depreciation, and amortization (EBITDA); earnings growth; and pro forma results, and that the Board needs to address the use of alternative and inconsistent methods of reporting financial performance. However, we strongly believe that the Board should be careful to remain within the framework of existing generally accepted accounting principles (GAAP) and not expand the scope of the project to include the development of extensive new GAAP reporting requirements.

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 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?*

AFP believes that there is the need to comprehensively address the issues of pro forma reporting of financial performance for business enterprises. We understand that the International Accounting Standards Board (IASB) has a financial performance reporting project on its agenda and that FASB has offered to work cooperatively with IASB. We support the IASB playing a role in defining a comprehensive solution to the pro forma reporting issues, provided that FASB works cooperatively with them to issue a collaborative statement. We feel that such a joint project would ensure that U.S. corporate interests are represented. We strongly support IASB's mission to converge national and international accounting standards into one set of high quality standards.

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

We believe that the proposed minimum scope is appropriate. We urge the Board however to be cautious about endorsing a wide number of prescribed required elements. This would be burdensome and might not be relevant to many businesses.

- 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.*

We support the inclusion in the scope of most of the identified issues. We believe that it is important to present core and non-core activities and that there should be corresponding cash flows from core and non-core activities. It is also important to distinguish the results of the core business from other financial performance, such as restructuring or impairment charges.

AFP does not believe that there is a need for a separate display of earnings before interest, taxes, depreciation, and amortization (EBITDA) because such an amount is easily calculated. Also, AFP does not believe that there should be a standard set of key financial measures (or indicators) that investors, creditors, others would use to assess and compare the performance of different companies because of the diversity among industries. A possible approach might be to develop and require the disclosure of a limited number of required key financial measures pertinent to specific industries.

We strongly recommend that the proposal not address accounting for the changes in fair values of financial instruments. We believe that this back door approach to defining fair value accounting will be confusing and that it is much better to address this in a separate project. We understand that the IASB has an agenda project on recognition and measurement of financial instruments and would support IASB taking the lead provided that FASB works cooperatively with them on a joint project.

We also do not believe that this proposal should address the presentation of comprehensive income. We urge the Board to separately address issues about reporting all comprehensive income items in a single financial statement. We believe that this should be done in a separate project to amend the Statement of Financial Accounting Standards No. 130 *Reporting Comprehensive Income*.

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,



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