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Subject: FW: Financial Statement Disclosure

----Original Message-----

From: David H. Goodman CPA, P.C. [mailto:dqoodman@david-goodmancpa.com]

Sent: Monday, March 17, 2003 11:29 AM

To: Mike Crooch; Neel Foster; Robert Herz; Gary Schieneman; Katherine Schipper; Edward Trott; John Wulff

Subject: Financial Statement Disclosure

## Dear Board Members:

To me it seems as if FASB is in total disarray. For so long, FASB has been guided by the publically traded clients of the large national accounting firms that it does not know how to respond in an investor driven environment. The basic rule of disclosure (if it would impact an investor's valuation of a company's stock disclose it) has been lost in a quagmire of esoteric debate.

Disclosure in a footnote has always been the compromise position of FASB and the AICPA between finanacial statement disclosure and no disclosure. Presumably, to a knowledgeable reader of financial statements it makes no difference whether a cost is disclosed on the face of the financial statements or in a footnote. However, are we preparing financial statements for knowledgeable readers or the single investor who may or may not understand financial statements? (Whether or not analysts and board members are knowledgeable readers of financial statements is a separate debate.)

The argument for footnote disclosure versus financial statement disclosure is that we only put into the financial statement what is likely to happen. Often we may have a range of outcomes and it is difficult to incorporate a range of outcomes into one number. I agree that this type of disclosure belongs in a footnote. But what if we do have a methodology for determining a single value as in valuing stock options; however the methodology includes the assignment of a probability of a particular outcome as in valuing stock options? How certain do we need to be?

An arguement can, and has been made, that even the reporting of cost based historical results is an uncertain process. Additionally, as industry practices change, differences in accounting practice become insignificant. For example, in a world of just-in-time inventory management there is little difference between FIFO or LIFO.

The reality is that financial statements are becoming less a statement of book value and historical performance and increasingly are becoming a statement of market value and future performance. For example, the debate between FIFO and LIFO is a debate between using historical costs or current costs. So is the debate on stock options. Has a company incurred an expense on the issuance of stock options or is this a potential future expense? In the fall of 1999 Lucent would have reported expense for stock options. By the summer of 2000 this expense had all but evaporated. During the Gay 90's disclosure of stock option expense on the face of the financial statements proprably would have been appropriate and certainly would have impacted stock values. Today it might not be very meaningful, but would it hurt?

In determinging disclosure this is the real issue to be decided - what is it we want financial statements be? Increasingly, the public is demanding both: accuracy in reporting historical performance and disclosure of future performance. I envision that financial statement disclosure will eventually reflect this such as disclosing historical performance and converting this based on contingent liabilities into a different income number.

Sincerely,