



September 21, 2001

Mr. Timothy Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Letter of Comment No: | U File Reference: 1122-001 Date Received: 9 | 21 | 0 |

RE: Reporting Information About the Financial Performance of Business Enterprises

Dear Mr. Lucas:

America's Community Bankers (ACB)¹ is pleased to offer comments to the Financial Accounting Standards Board's (FASB) Proposal for New Agenda Project – Reporting Information About the Financial Performance of Business Enterprises, dated August 17, 2001.

While we understand concerns that have been raised about pro forma financial disclosures, and share some of those concerns, we oppose any expansion of FASB's standard-setting and guidance beyond those items that are disclosed in basic Generally Accepted Accounting Principles (GAAP) financial statements and notes to support those financial statements. How a company's management chooses to characterize its financial performance in Management's Discussion and Analysis, selected financial ratios, or other "front-of-the-book" reporting is not within the purview of public accounting. As long as the basic financial statements are presented in accordance with GAAP, the interpretation of that performance should be left to management, shareholders, and other analysts.

Given our views, we recommend that FASB not proceed with this project. If the project goes forward, we urge FASB to pursue the narrowest of the three approaches contemplated, the "minimum approach" described in the proposal. Many, and perhaps all, of the issues noted for possible review do not rise to level of consequence where Level 1 GAAP is needed. Indeed, other than some recent articles in the press about pro forma reporting, we see no pressing need for FASB to address this issue. If action is deemed necessary regarding standards for pro forma reporting or some other narrow set of performance reporting issues, we would suggest that the FASB defer this issue to the AICPA. The remainder of our comments address specific conceptual issues regarding the scope of considerations raised in your proposal.

¹ ACB represents the nation's community banks of all charter types and sizes. ACB members, whose aggregate assets exceed \$1 trillion, pursue progressive, entrepreneurial and service-oriented strategies in providing financial services to benefit their customers and communities.

Reporting Information About the Financial Performance of Business Enterprises September 21, 2001 Page 2

We do not believe changes to the existing standards for the classification and display of specified line items are necessary. Investors should draw their own conclusions when presented with metrics such as EBITDA, or other aggregations or disaggregations of line items.

In answer to at least one of the questions contemplated regarding the scope of your proposed project, there are no key financial measures (or indicators) common to "investors, creditors and others". The interests of investors and creditors in particular can be quite different. Creditors may be concerned solely with adequate capitalization and liquidity, while investors may be pushing management to increase leverage or more aggressively pursue economic opportunities.

Different metrics also have different meanings in different industries. Distinguishing operating and nonoperating items across industries or even within the same industry is problematic and will always require considerable judgment. To cite but one example, consider the characterization of gains and losses on the sale of securities. For a telecommunications company, one could easily argue that securities gains are not operating income, but some financial institutions may clearly define their own trading of securities as a source of operating income/expense. Similarly, a metric such as tangible book value per share may be commonly presented in banks' financial reporting, but would not be relevant readers of the financial reporting of high tech or biotechnology firms that mainly invest in intangible assets. It is our view that trying to create standards for performance measures that cut across all industries would be an unproductive exercise for FASB or anyone else. Trying to fashion a one-size-fits-all approach may not improve the quality of financial performance reporting at all.

Regarding changes in fair value of financial instruments, we are opposed to fair value reporting – believing it is an unsound approach to looking at the financial condition of a banking institution. Some banking companies do report performance measures such as RAROC or EVA (Risk-Adjusted Return on Capital, and Economic Value Added, respectively) that include total return measures on certain financial instruments. Practices vary as to which instruments' total return is reported, with many institutions limiting the total return component to only those highly liquid or exchange-traded securities. Reporting total return is clearly inappropriate for the majority of banking assets and liabilities. We would further note that the practices used to calculate the components of risk-adjusted performance measures vary widely, depending – as they should – on bank management's risk tolerance, time horizon, and required return on capital. The presentation of risk-adjusted financial performance measures, as is the case with any other alternative performance measure, is not a subject that requires Level 1 GAAP. We would oppose requirements for companies to separately display certain or all of the components of the change(s) in fair value in an income statement.

Lastly, we strongly oppose the creation of standards for performance reporting that are optional to the user. If standards are created – and we generally think they are not needed – the standards should be the same for all reporting institutions.

In summary, we see little compelling need for FASB to take on a project on financial performance reporting. Simple guidance on best practices for the reporting of pro forma financials can be deferred to AICPA. While these are not trivial issues and we appreciate

Reporting Information About the Financial Performance of Business Enterprises September 21, 2001
Page 3

FASB's interest, we believe there are many more fruitful uses for FASB's, and its constituents', resources than creating standards for reporting financial performance.

ACB appreciates the opportunity to comment on this important matter. Please contact the undersigned at 202-857-3125 regarding questions or clarification of our views.

Sincerely,

/s/Joseph Blalock

Joseph Blalock Director, Financial and Technology Policy