

Attention: Technical Director

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From: Leslie Reed

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Comments on Discussion Paper: "PRELIMINARY VIEWS ON FINANCIAL STATEMENT PRESENTATION"

My comments reflect what I believe are the needs of 'normally knowledgeable' investors. I was trained as a public accountant and now manage about a \$2 M portfolio of mostly common stocks. My stock selection process is heavily geared toward financial statement analysis, even while knowing their problems.

I want you to throw out the whole initiative. IMO it will effectively destroy all semblance of reporting on past performance and present condition. It will recreate financial statements as pro-forma templates for analysts' models of future projections.

You have been working in that direction for a long time. But this tips you over the edge into absurdity. You have given up all pretense of presenting information, in order to drown us in data ... even while failing to include the really important data points.

You want to substitute 'factual' historical data with management's interpretations that will be inevitably compromised and impossible to audit.

This paper's recommendations are obviously for the industry analysts' model inputs. Why? Their models have proven to have no predictive value. They cannot even get the next quarter's earnings correct. If analysts would only pay more attention to historical results that include ALL the results, they would have a better handle on possible futures.

http://members.shaw.ca/retailinvestor/GrowthEarnings.JPG http://www.cxoadvisory.com/blog/internal/blog1-07-09/

The proof that the recommendations of this paper are useless can be shown by the financial reports that management use to manage. These are not constrained by you or any rules. Unless the accountant is completely lacking common sense, their formats will ignore GAAP, and provide the information necessary for decision-making.

Management's decisions are essentially the same as investors. Yet I have NEVER, NEVER seen management reports in the framework you propose.

Instead of the beaurocratees (sp) of your paper why did you not address simply and straightforwardly these problems ... ?

You continue the absurdity of 'disagregating' (removing) all the operating results as soon as mangement decides to sell a division. Honest reporting would keep all their operations within the reported Sales and Cost of Sales. Honest reporting would provide subdivision of operating results in the Notes: by geography, by product, by continuing/sold/forsale.

This process destroys all value in tracking historical profit margins and sales growth rates. It panders to the industry's analysts at the expense of true users and the historical record.

Disaggregation by splitting up the reporting of debits and credits destroys information more effectively than no reporting at all. Yet you seem oblivious to the difference between a meaningful aggregate vs. meaningless data points in disaggregation.

E.g. Splitting the reporting of the pension underfunded liability into an asset (that is not really an asset because it belongs to someone else) and a liability (that is not really a liability because it has already been partially satisfied) ensures that readers don't see the unfunded balance. Why its ONE number disclosed on its own line on the Balance Sheet?

E.g. Splitting the reporting of Accounts Receivable as a debit, and the allowance for Overbilling of construction projects as a credit, destroys the reader's ability to compare unpaid revenues.

E.g. The current practice of rubbing the readers's faces in Income Taxes is appalling. Management now splits the tax assets/liabilities into SIX (6!) line item account on the Balance Sheet. Just because they don't like paying tax. Pathetic! To be meaningful there should only be one current cash account owing, and one long-term account with all the remaining.

There is already a reporting concept of "materiality". Yet there is no statement in this document that states clearly that every single issue that is important enough to warrant mention in the Management Discussion's prose, must have its own line in all the Statments.

E.g. if they want to claim massive restructuring expenses in advance of actually incurring the cost, they should break out the \$\$\$ within the Cost of Sales, and add an adjustment line to the Cash From Operations top section of top section, and show the accrual number on the Balance Sheet.

E.g. Management compensation is clearly material or else there would be no required disclosure in the Circular that accompanies the AGM material. So why is not total mangement compensation considered material enough for disclosure in the Income Statement on its own line?

E.g. The unfunded pension liability is often greater than a full quarter's Net Income, yet somehow it is not material enought for disclusure on its own line.

You will continue to drown us in data regarding employee stock options, even while omitting the salient information.

The most important data point necessary to measuring the options liability is the stock's closing price on the Balance Sheet Date. Yet this is not required disclusure. This is not a required 'price-break point' in the listing of "#o/s at different prices".

The most important data point necessary for measuring the cost of options excercised is the market value of the stock when exercised. Yet this is not required disclusure on the Statement.

There is no discussion here on the obvious non-use of technology. I applaud the substitution of web-distribution for hard copy. Yet the electronic versions are unuseable.

Readers MUST be able to flip back and forth between the aggregated data and the explanations and disaggregation. Why? because data does not become information without the relevance and context of the big picture Statements.

Why not state that hyperlinks are required, and promote the drop-down box for disaggregated components of the totals on the Statements? Because the point of this project is to bury information, not expand it?

Why is there no simple decision to require the Notes to provide lists of component \$subtotals along with their total that agrees to the Statement amount? This information is on every auditors' working papers. Yet what investors now get (and in your future) are irrelevant numbers floating in a sea of prose, with no reconciliation to the Statement total.

Why is there no stipulations that data that can be disclosed in table form should be, without forcing readers to also slog through \$\$\$ sprinkled buried in prose? The waste of time management forces upon every reader is criminal. They repeat the same information THREE time over. Yet we must read this stuff because maybe, just maybe, there will be a tit-bit of actual information.

Why are you even thinking about requiring publication of financial ratios? Oh, yes, because the analysts want to plug them into their models. Any real user of Statements will generate their own ratios, because the inputs need to be corrected for all the bad accounting now in place. Any investor would be a d... fool to use the canned ratios publish on the internet.

Where is the policy criteria for requiring disclosure on the Statements proper vs. the Notes. Currently every new disclosure requirement get added to the Notes.