Sent: Tuesday, July 28, 2015 2:13 PM
To: Director - FASB
Subject: Reporting of regular ongoing operations

About a month ago I sent you a comment letter on possible changes to not-for-profit accounting and financial statement presentation so that the results of regular ongoing operations would be clear. Now from my role as an investor and serving on investment committees for not-for-profit organisations, I make comments below about the need for better reporting by businesses, so the results of their ongoing operations would be clear.

In order to make sound investment decisions I believe it is necessary to try to project what a business will earn in future years. To do that it is necessary to know what it earned on an ongoing basis in the latest reporting periods as a starting point. Present reporting makes it very difficult if not impossible to do that because of inclusion of often not disclosed non-operating items in GAAP earnings. Today many major corporations are attempting to deal with that problem by having their annual report comments largely use what they call Adjusted Earnings, Operating Earning, or some similar title, which they say in more informative and more meaningful that GAAP earnings.Often there is a detailed reconcilement between the two. I think it would be a real concern to FASB that in effect major corporations are saying that GAAP earnings are not a realistic basis for evaluating corporate performance. How can we deal with this?

I think the answer is what I proposed for not-for-profit reporting, and what is sometimes used there, but not often for business reporting. That is to have two sections in the Statement of Income, first for Regular Ongoing Operations, and second for Non-operating Items. To make this work the FASB would have to define what should be reported in the second category.Now the text of the annual report often lists a number of particular items affecting results, but often includes items not in the reconcilement to GAAP, but helpful to a reader in evaluating performance, and often include no total of such items.

In defining such items I do not think they should only be non-recurring items or ones that occur irregularly. Many items are extraneous to operations but recur.
Examples of items I would include are adjustment of pension liability for market change in investments or changes in actuarial assumptions, legal settlement gains and losses, gains or losses on sale of a part of the business, write-off of in-process research on an acquisition, settlement of prior years tax liability,write down of any asset to fair value, losses from floods, fire or other casualty, and restructuring charges including termination payments.

Probably a main reason for not requiring the suggested treatment is the problem of questionable items and the human nature tendency to include favorable items in operations and break out unfavorable items to explain poor results of operations. It would be very important to get clear definitions so that all corporations would report items the same so that earnings of different corporations could be compared. Still I think the advantages of making it easier for a reader to understand what are earnings free of extraneous items, and avoiding readers thinking that major corporations reject GAAP reporting as mandated by the FASB as not being meaningful out weigh the problem of definition .If the two category approach were adopted, I would expect that corporations would be required to report per share amounts in both categories.

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