

November 8, 2007

Nancy M. Morris Secretary
Securities and Exchange Commission
100 F Street, NE,
Washington DC 20549-1090

Dear Madam

File Number S7-20-07
Concept Release on Allowing U.S. Issuers to Prepare
Financial Statements in Accordance with
International Financial Reporting Standards

The attached comments do not relate to the questions *whether* International Financial Reporting Standards (IFRSs) should be adopted but rather *why* these standards should be adopted within the United States. I agree with the position of the Accounting Standards Board (AcSB) of Canada regarding the implementation of IFRSs within Canada:

“The AcSB acknowledges that the transition will impose a burden on constituents in the near term, but is of the view that the improved access to global markets for raising capital, and elimination of penalties resulting from differences in accounting standards, will far outweigh the costs in the long run. ¹”

My comments follow the format used in the paper *Discussion Paper for Consideration by the SEC Advisory Committee on Improvements to Financial Reporting* by Committee Chair *Robert Pozen* (dated July 31, 2007).

I thank the Securities and Exchange Commission for the opportunity to comment.

Yours Truly

Don Bjerke
178 Deergrove Crescent
Regina Saskatchewan
S4S-5M1
E-mail bjjerke@sasktel.net
Phone no. (306) 584-5001

¹ Accounting Standards in Canada Implementation Plan for Incorporating IFRSs into Canadian GAAP, Paragraph 34 Page 12

Concept Release Comments on Improvements to Financial Reporting

Introduction

The accompanying article entitled *A look at the IASB/FASB Conceptual Framework* states that the objective of financial reporting is that of stewardship and states that the functions relating to financial analysis and economic analysis be clarified by setting the boundaries for financial accounting. The economic/financial conceptual framework put forth in this article is more in line with IASB standards than with FASB standards. Setting boundaries in this context for financial statements is supported by the following comments made by Dennis R. Beresford:¹

“While it is natural for any organization to want to keep its options open with respect to future activities, I do not support such an open-ended mandate for the FASB. Given the challenges still to be dealt with in the context of financial statements, I urge the Board to remove the reference to possible future work in the area of forecasts and environmental or social information. I believe that the FASB has neither the mandate nor the skills to deal with these matters.”

Background

Exhibit A outlines the difference between the two disciplines of financial and economic analysis. As illustrated, financial analysis deals primarily with historical information (other than for budgeting) while economic analysis deals only with current and future information. Economic analysis and not financial analysis should therefore deal with items such as fair value and uncertainty. The encroachment of economic concepts into financial statements seems to have started with a very liberal interpretation of Concepts Statement No. 7.

Dennis R. Beresford has the following to say about this:²

“Obviously, it is the FASB’s responsibility to improve financial accounting standards, not just change them. When making such radical changes to accounting models that have existing for 30 years or more, it seems to me that the Board needs to provide convincing evidence that the information produced by the new approach will be clearly superior to the information provided by the old model. Rather than continuing to impose the Concepts 7 model in ever more creative ways, I suggest that it is time for the Board to step back and objectively examine whether what it has done to date is truly an improvement.”

¹ See his comment letter (CL1) page 3 dated July 13, 2006 on the FASB’s Preliminary Views on “Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information.” Dennis R. Beresford was chairman of FASB from 1987 to 1997.

² See his comment letter (CL1) page 7 dated November 1, 2005 on the Invitation to Comment, “Selected Issues Relating to Assets and Liabilities with Uncertainties.” by FASB

I. Substantive Complexity

Differentiating between the disciplines of economic and financial analysis will reduce complexity by clarifying the role of decision making from that of stewardship. Complexity arises when financial statements are mistakenly used for decision-making purposes.

Principle-Based Standards

The choice for adopting a set of standards must be based on a conceptual framework. FASB as yet has not developed such a framework. The economic/financial concepts discussed in the article *A look at the IASB/FASB Conceptual Framework* describes a framework for financial reporting.

Competing Principles

Competing principles are probably the result of confusing economic concepts with financial concepts. A clear understanding of the difference, as shown in Exhibit A, will show that these principles are probably complementary and not competing with one another.

Preparers vs. Users

As stated in the article *A look at the IASB/FASB Conceptual Framework*, the planning process should produce two sets of statements, economic and financial. Hence there would be two different sets of preparers and users. Preparers of the economic statements would have an entirely different skill set as compared to the preparers of the financial statements. Economic statements would also have different set of users because these statements would likely contain sensitive information used for decision-makers. Financial statements would be intended for public consumption and would contain company performance indicators on a periodic basis.

Industry Specific Exceptions

The adoption of traditional transaction-based financial accounting statements should reduce the amount of industry special treatments or exemptions.

Alternative Accounting Policies

Alternate accounting policies are probably based on economic concepts. These “alternate” policies, such as the fair value option, should be addressed within an economic context.

Sensitivity Analysis

Situations where decisions are to be made are the essence of an economic study. Historical information within financial statements is known with certainty and hence does not require a sensitivity analysis.

II. Standard Setting Process

U.S. GAAP Hierarchy

At present, the many federal and state laws, regulatory rules and other requirements related to financial reporting refer to U.S. GAAP. In adopting IFRSs, these standards will need to be imported into U.S. GAAP. There should be understood that this is a process of adopting IASB standards not an exercise of convergence or harmonization to FASB standards. National variants of IFRSs should thereby be minimized or eliminated. The

U.S. as a member of the International Accounting Standards Board will have to enact changes that they wish to make from within this organization.

FASB Standard Setting Process

Since the Concept Release envisions allowing individual U.S. public companies a choice of adopting IFRS or continuing to use U.S. GAAP, IFRSs will no doubt be adopted. FASB will have to develop a blueprint for a smooth transition for the adoption of international standards. The FASB should continue its current research in relation to Non-Publicly Accountable Enterprises (NPAEs) to determine what the most appropriate basis of accounting will be. Based on the results of that research, the role of the FASB will evolve in relation to NPAEs. The FASB should continue to assess what special standards are required to accommodate the special needs of Not-For-Profit Organizations (NFPOs). The U.S. should maintain its own standard-setting capabilities, as they will be required within this new environment.

Interpretive Guidance – EITF

The EITF would form a useful role in developing a blueprint in moving financial reporting for U.S. publicly accountable enterprises to a single set of globally accepted high-quality IFRSs issued by the IASB.

Interpretive Guidance – SEC

The Commission should continue its role in addressing accounting issues in adopting the IFRSs..

Interpretive Guidance – Other

These organizations can serve a useful role in educating people about IFRSs

The Use of Cost-Benefit Analysis in Standard Setting

The reconciliation of financial statements using IFRS to U.S. GAAP can be very costly and should not be undertaken. A blueprint for a smooth transition to international standards is therefore essential.

Existing Standards

The Accounting Standards in Canada Implementation Plan for Incorporating IFRSs into Canadian GAAP can provide a guideline with regards to adopting the existing IFRSs.

III. Audit Process and Compliance

Financial Restatements

The adoption of IFRSs will reduce the number of financial restatements. The adoption of economic concepts within financial statements is causing the restatement of many financial statements.

Use of Judgement

The use of judgement in selecting alternatives is the essences of economic decision-making. Financial statements should not deal with this.

PCAOB

The PCAOB would be able to do its job more effectively with the use of international standards .

SEC – Corporation Finance

The SEC – Corporation Finance would be able to do its job more effectively with the use of international standards.

SEC – Division of Enforcement

The SEC – Division of Enforcement would be able to do its job more effectively with the use of international standards.

Audit Firms

Audit Firms would be able to do its job more effectively with the use of international standards.

Sustainability of the Audit Profession

A strong and vibrant public company auditing profession would be more sustainable using international standards.

IV. Delivering Financial Information**Tiering of Information**

Investors interested about the progress or performance of a business would be interested in the financial statements. Sophisticated investors who may be interested in a full discussion of management's choice of assumptions underlying a comparative analysis would be interested in obtaining the economic statements.

Tagging of Information

Tagging of information should apply to economic statements as well as financial statements.

Press Releases and Website Disclosure

A differentiation should be made regarding disclosures pertaining to financial statements and economic statements. International standards should also indicate the amount of disclosures made in financial statements.

Legal Issues

There may be legal issues around the different types of information in financial statements verses information in economic statements. This will have to be sorted out.

V. International Coordination

The adoption of international standards will require a huge amount of international coordination.

Standard Setting Approach

It is suggested that FASB follow a similar blueprint to that specified in the Accounting Standards in Canada Implementation Plan for Incorporating IFRSs into Canadian GAAP.

Regulation

A similar regulatory process used by other countries that have adopted international standards should be used.

Exhibit A

Financial Analysis

Considers the performance of financial statements over a short term

Viewed on a company or business segment basis

Uses historic and projected financial information

Does not relate to valuation or appraisal

Factors Considered:

- Earning impact
- Legal and tax requirements
- Full cost recovery
- GAAP
- Allocation of common costs
- Financial regulatory requirements

Uses:

- Determining profitability on an accounting basis
- Constraint on economic decision-making
- Operational goal setting on a corporate and segment basis
- Determining full costs
- Setting revenue requirements on a segment or company basis

Capital Recovery:

- Depreciation + Debt Interest + Equity Interest

Indicators:

- EBITDA
- EBIT
- NOPLAT
- Net Income
- Return on Equity (or Capital Employed)
- Financial statements

Economic Analysis

Considers viability over the long term

Viewed on a company, project, product, or service basis

Uses current and future cash flows

Does relate to valuation or appraisal

Factors Considered:

- Opportunity costs
- Elasticity
- Causal cash flows
- Price/quantity relationships
- Contribution to common costs
- Economic regulatory requirements

Uses:

- Determining profitability on an economic basis
- Decisions to accept - reject or continue - discontinue
- Choosing the best of all possible alternatives
- Determining pricing "mark-ups"
- Determining minimum revenue requirements for pricing

Capital Recovery:

- Annuity $\{(a/p)^r \text{ or } (a/f)^r\}$
where $r = \text{cost of capital}$

Evaluators:

- Net Present Value
- Rate Of Return on Capital
- Present Worth of Annual Costs
- Annual Equivalent Costs
- Discounted Pay Back
- Pro-forma statements

SPARK

Letter #39
Mar. 2007

The on-line gateway for readers of Public Utilities Fortnightly magazine.



UTILITY FINANCIAL REPORTING

A Look at the IASB/FASB Conceptual Framework

BY DON BJERKE

Is your utility accurately reporting financial results? Don Bjerke will help you through the maze that is the FASB/IASB Preliminary Views on the Conceptual Framework.

Is your IT organization providing higher strategic value to keep up with new challenges from climate change, energy shortages and security issues? Mark Vorholt tells you what to look for in these ever-changing times.

Have you heard about the proposed Green Line project? Spark takes a look at the newest underwater transmission line that may come to the Northeast and the issues faced by its developers.

L. A. Burkhardt
Editor

The Federal Accounting Standards Board (FASB) and the International Standards Board (IASB) have issued Preliminary Views on the Conceptual Framework (CF) for Financial Reporting as of July 6, 2006.¹ This is the first time that FASB/IASB jointly has requested comment letters on the Preliminary Views. This article examines the FASB/IASB conceptual framework by reviewing recently submitted Comment Letters (CLs).² A planning model also is discussed to help resolve the issues raised in these CLs. Utility companies should be concerned, as economic concepts are being incorrectly used within financial statements. This results in inaccurate interpretation of financial results.

A Commendable Effort

Over 175 CLs have been received by FASB/IASB on the conceptual framework.

These letters strongly support the initiative to harmonize the financial reporting standards issued by the IASB and the FASB. As CL16 states, "this is probably the most important accounting standards discussion paper of the last 20 years." FASB/IASB should be congratulated for their efforts in initiating this review.

Is There a Degree of Urgency?

CL59 states: "There is widespread recognition of the need to reform the accounting standard setting process. Some sense of the need for change is seen in recent comments made by Robert Herz, Chairman of the Financial Accounting Standards Board (FASB), "from where I sit, I believe the *status quo* is neither acceptable nor sustainable" (Herz, p.12, 2005). Similar views are expressed by the SEC (2005) and the FASB (2006). Yet as CL50 states, "one aspect of the frameworks that is unlikely to change is the basic structure of the »

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1 Utility Financial Reporting
A Look at the IASB/FASB Conceptual Framework

By Don Bjerke

3 IT Infrastructure
Management Outsourcing
Surfing the Waves

By Mark Vorholt

5 Underwater Electric Transmission
New England's
"Green Line" Debated

By Lori A. Burkhardt

concepts (op. cit. p.3). This suggests that the approach is to constructing a CF and the idea of such a framework is to remain largely the same."

A conceptual framework should set the foundation upon which the standards (including measurement) are based, but if completion of this CF is not due for 10 years, changes within the standards will be a long time in coming. In case that we become too optimistic about the FASB/IASB efforts in resolving the issues surrounding financial reporting, CL4 states: "To date, the FASB have issued seven official Conceptual Statements for the CF."

Impending Impasse

By far the most contentious issue regarding the objectives of the CF is concerning stewardship and decision-usefulness.

The CF wants to incorporate stewardship within decision-usefulness objectives while other parties see these as separate objectives. Those wanting to see stewardship as a separate objective hold the view, as CL24 states, "having provided the risk equity, the shareholder is the party with the greatest vested interest in the performance (past and future) of the entity. Potential investors on the other hand have borne no risk, while lenders rank before shareholders (in most jurisdictions) and therefore bear lower risk." Opinions within the U.S. also support having separate objectives. For example, CL112 states that "stewardship is a separate role" and CL133 states that "stewardship responsibilities should be a separate and distinct objective of financial reporting." CL176 also states:

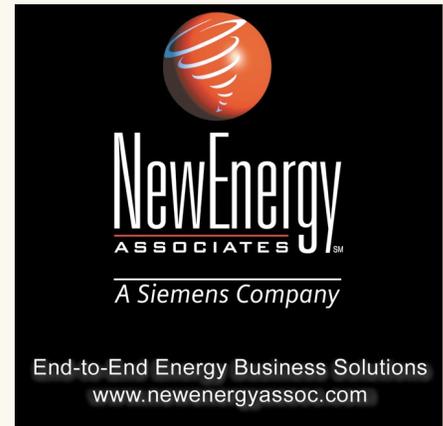
"Stewardship not only is important; it is more important for most enterprises than investment."

Judging by the overwhelming response against the CF position on this point, it will be hard for FASB/IASB not to recognize what CL171 states as "parallel objectives which have different emphasis. They should be defined as separate aims and appear in their own right." Assuming that the FASB/IASB will yield on this point, it is suggested that they recognize these objectives as equally important and treat stewardship as a financial objective and the decision-usefulness as an economic objective. This means that both objectives can work together and become complementary instead of contradictory. The decision-usefulness economic objective will provide a long-term view, while the stewardship financial objective will show the short-term view. One can think of the economic objective as providing a road map, while the financial objective indicates the progress along this road map.

Stewardship—a Financial Reporting Objective

Stewardship is defined in this article as the traditional transaction-based accountability process. The qualitative characteristics used in meeting the financial objective should be:

- Accrual accounting using the underlying concepts as matching, periodicity, historical cost, recognition, and the revenue generation. This process would avoid the current mixed-attribute accounting model containing fair value using such standards as #133



(derivatives), #142 (goodwill), and #144 (impairment).

- Depreciation as a process of historical cost allocation, not of valuation. Matters relating to the restatement of past transactions to fair value are addressed under the decision-usefulness economic objective.

- Consistent, clear and concise information that is understandable to all users including those in the not-for-profit and for-profit sector entities. Information must be precise, verifiable, transparent, reliable, comparable, and trustworthy.

Defining financial reporting in this context will mean limiting the scope of financial reporting to financial statements that would not include economic and social reporting.

Decision-usefulness—an Economic Reporting Objective

The idea is that external users making important economic decisions seem to be the major concern in this conceptual framework. But as CL27 points out: "Whilst it is true that (Cont. on p.9)

FORTNIGHTLY'S

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Public Utilities Reports, Inc.

8229 Boone Blvd., Suite 400
Vienna, VA 22182
Phone: 703-847-7720
800-368-5001
Fax: 703-847-0683
<http://www.pur.com>

Bruce Radford, Publisher
radford@pur.com

Lori A. Burkhart, Editor
lab@pur.com

Horia Stefanescu, Designer
astephen@pur.com

E-mailed to all
Fortnightly subscribers.
Call: 800-368-5001

For e-mail address changes
or other information, contact
jcole@pur.com or 800-368-5001.

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England arrangements, only the costs of Regional Benefit Upgrades (RBUs) are rolled into regional transmission rates. It further noted that in order to be an RBU, an upgrade must be classified as a Pool Transmission Facility (PTF) and be either a Reliability Transmission Upgrade (RTU) or a Market Efficiency Transmission Upgrade (METU). But ISO-NE expressed its belief that based on existing needs assessments reflected in recent RSPs, the Green Line project as described is not "needed" as an RTU that would qualify for regional cost recovery. It contrasted the Green Line with Neptune, which it noted is a merchant transmission line, for which no region-wide rate recovery is being sought in PJM and NY-ISO. Instead, the line's cost is being paid by the Long Island Power Authority under a firm trans-

mission capacity purchase agreement with Neptune Regional Transmission System, LLC.

ISO-NE said an RTU under the definition in its tariff, "is a project that is required to ensure the continued transmission reliability of the system, *i.e.*, to provide acceptable stability response, short circuit capability and system voltage levels, and those facilities required to provide adequate thermal capability and local voltage levels that cannot otherwise be achieved." But ISO-NE concluded that neither the petition nor its attachment assert that the Green Line is intended to meet any of those needs in New England. ■

Lori A. Burkhart is a legal editor at Public Utilities Fortnightly magazine and can be reached at 703-847-7720 or lab@pur.com.

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and debt.

- level of risk assessment depending on the importance of the decision to be made. This would include sensitivity analysis, probabilistic analysis, and risk metrics.
- faithful representation of the real world economic phenomena including a detailed market analysis with environmental or social assessment. It is important to realize that these are special studies that can consume a large amount of time and energy and hence are not prepared periodically. A specialized group is usually called upon to conduct these studies to enhance the efficiency of the organization.

The problem with the CF is that it displays economic-study results in a financial statement. The result of an economic study is an economic statement. Although economic statements may be displayed in an accounting format as *pro-forma* statements, they still remain economic statements. Only economic statements contain the proper information for decision-making purposes. As the CF states, information for decision-making purposes must be prospective, have fair value, and reflect future market conditions. The use of existing plant must be appraised at fair value if it is to be used as a capital expenditure cash flow in an economic study. ►►

Utility Financial Reporting

(Cont. from p. 2)

external investors do decide whether or not to buy and sell shares, the fact is that the buying and selling of shares is a relatively unimportant set of decisions." Anyone that is working or has worked in a capital-intensive company will know this to be true. In the telecommunication industry, for example, dozens of economic studies are conducted on an on-going basis in deciding the type, size and timing for installing facilities. What has started off as engineering economic studies has evolved into managerial economics and now is commonly referred to as economic analysis. Most of these studies are comparative cost studies with little or no difference in revenue. In this case, the recommended alternative would have the least negative Net Present Value (NPV). The same methodology is used in conducting an economic

profitability study where the total revenue and the total (incremental) costs are used. In this case, the recommended alternative should be viable (have a positive NPV). This is the exact methodology that FASB/IASB is proposing in the CF. The qualitative characteristics in meeting the economic objective should be:

- projection of six current and/or future cash flows consisting of revenue, capital expenditure, cash expense, income tax, gross salvage and cost of removal.
- use of a study period to provide service equivalency.
- use of time value of money operators to present worth and to annualize these cash flows.
- use of a discount rate based on a corporate cost of capital using a weighted average cost of equity

The 4R Planning Model

CL1 and a number of other letters have raised the question of boundaries. The following model linking the economic and financial concepts together and attempts to address the boundary issue. As stated in CL17, this is called the 4R Planning Model because it consists of 4 modules: *Recommending, Recording, Reporting and Reviewing.*

Recommending Module

Objective: To provide economic statements in recommending the most viable alternative (among all possible alternatives) to the parties that requires this information for decision-making purposes.

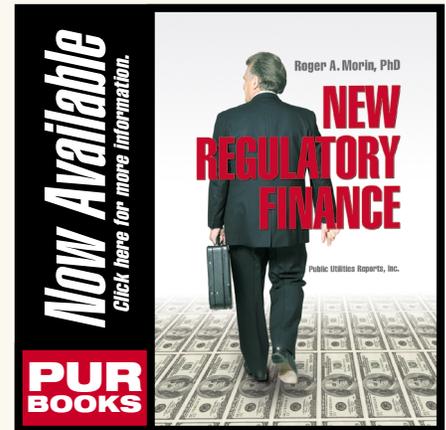
Inputs: Information for determining cash flows used in economic studies, such as supplier costs, market prices, and unit data generated from the recording module (*i.e.*, unit costs, prices and quantities, unit labor costs and duration). Cost factors indicate how historical costs such as on going expenses (*i.e.*, maintenance), cost of removal, and gross salvage relate to the initial capital expenditures. These factors along with cost increase factors provide a guide for determining future cash flows.

Outputs: Economic evaluators such as Net Present Value, Rate of Return on Investment, Discounted Payback.

The economic cash flows can also be expressed in a *pro-forma* statement showing an accounting format of annual revenues and expenses.

It is not unusual for any company that the 'sum of the resources required' will exceed the 'resources available.' For maximum utilization, the sizing of a capital budget becomes more a resource rationing process than resource allocation process. Sizing usually begins with the inclusion of the mandatory projects, than followed by ranking the discretionary projects according to their NPV. The resulting portfolio is then recommended to upper management for their approval. Economic considerations will indicate what projects should be undertaken while financial considerations will dictate (usually due to the lack of funding) what projects can be undertaken. Hence the two concepts become complimentary in this decision-making process.

Economic statements, by their futuristic nature could contain sensitive information that the entity would not want to disclose to the general public or its competitors (*i.e.*, market share etc). These economic studies, which would be conducted only as required, could be filed in confidence to the regulator, SEC or to the parties that require this information for decision-making purposes.



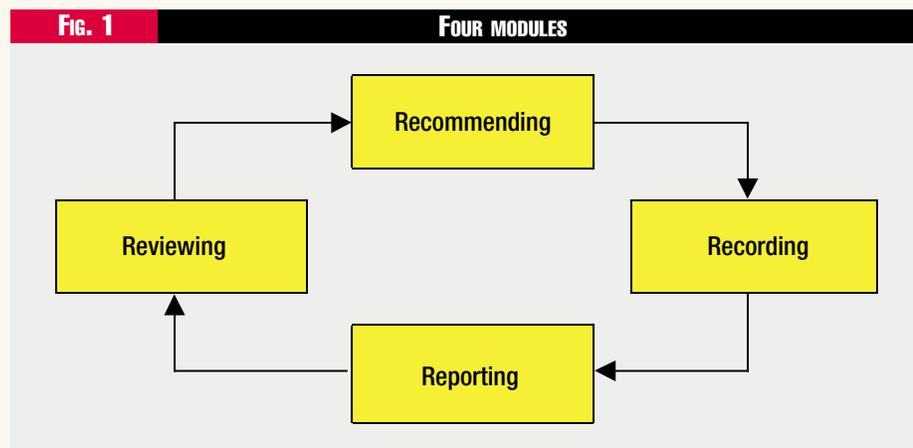
The Recording Module

Objective: To collect, summarize and analyze data (including the calculation of depreciation accruals and income tax) in the most cost-effective manner.

Inputs: Unit data (*i.e.*, unit costs, prices and quantities, unit labor costs and duration) and cash flows as determined by tracking requirements. External data may also be an important input.

Outputs: Historical and projected revenue and expense (budgetary) information required for financial reporting and cost factors for determining cash flows in economic studies.

The cost-benefit analysis is a very important aspect of this module. Once an undertaking is approved and implemented, the tracking requirements should be identified. A vast amount of company resources may be eaten up without knowing the tracking requirements. These requirements should specify the level of detail, including the number of accounts to use and whether or not to record actuarial data for depreciation purposes. It also should specify how the data is to be obtained, who should track and report this data, the costs for tracking the data, and in certain instances, the duration and frequency of tracking. In this sense, 'materiality' and 'benefit and cost' should be listed as constraints to recording, »



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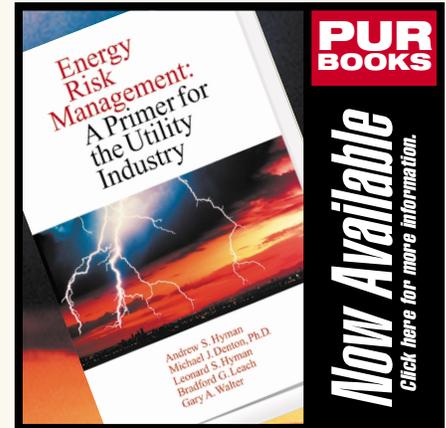
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not reporting, financial information. In most companies now, the general ledger system has been absorbed into a mechanized management system such as SAP (System Application & Practice) which tracks and manages, in real time, sales, production, financial accounting and human resources of a company.

The Reporting Module

Objective: To provide financial statements in reporting the historical performance and current status in judging the performance of an organization for any party that may require this information.

Inputs: Historical and projected revenue and expense (budgetary) information from the recording module.

Outputs: Financial statements and notes.

It should be clear that projected revenue and expenses (budgetary) information for tracking performance is only an aggregate projection of past expenses (*i.e.*, depreciation accruals) and revenues. It may be viewed as a top-down approach whereas the forecasted cash flows in the recommending module may be viewed as a bottom-up approach. It is important to note, as CL41 states: "The past is not a guide to the future. Past transactions do not provide information about future development." Hence financial statements should not to be used for »

decision-making purposes.

The Reviewing Module

Objective: To judge the performance of a company in comparing what an organization actually did to what it should have done.

Input: Financial statements.

Output: Proposed corrective action (upon which the recommending module may act on).

An unfavorable difference between actual performance and whatever standard is used, if large, indicates that something may be wrong, and this leads to an investigation and then to corrective action. This standard may be a subjective standard derived from the analyst's experience, a standard based on projected revenue and expense (budgetary) information, a standard based on historical information, or a standard based on other organizations' performance.

An important aspect of this module is that of auditing. An important qualitative characteristic of auditing is verifiability. It should be noted that verifiability should not be associated with faithful representation in an economic sense, because future cash flows are difficult to verify. As CL176 states, "such data are rarely verifiable, as they necessarily depend on subjective judgments by managers."

The Management Role

The management role should be viewed as a cyclic process as portrayed by the Cybernetic Model discussed in CL73. The "predictive model" is similar to the Recommending Module with "financial reporting" being the Reporting Module and "feedback" being the Review Model. Management is not involved with just one module such as financial reporting, but with the whole model. Management is involved with what Peter Drucker calls a Management by Objective approach. MBO consists of four steps: (1) setting objectives, (2) defining strategies, (3) developing

schedules and (4) making evaluations. While some companies have expanded this idea into a more formal planning model, the fact remains that management is responsible for the whole process.

The 4R Planning Model does the same thing. This cyclic process helps set objectives and develops strategies by recommending courses of action based on sound economic principles and ensures that the entity is on course through proper recording and financial reporting. Performance assessments are based on reviewing what the entity actually did compared to what it should have done.

Conclusion

The decision-usefulness/stewardship controversy can be resolved simply by portraying economic information in an economic statement for decision-making purposes. Financial accounting statements then would continue their traditional accounting role. Economic statements would apply to only a very small percentage of the companies. Based on the comments made in CL176, all public and non-public companies would file the minimum GAAP financial statements. In addition to submitting the financial statements, only 203 out of 4.9 million enterprises (or .004%) that report to the SEC would need to submit additional economic statements to meet the SEC »

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Next Month's FORTNIGHTLY

The April issue of *Public Utilities Fortnightly* magazine asks whether private equity will gobble up not only TXU but perhaps the rest of the industry? Richard Stavros takes a look at the merger frenzy. He says that utility mergers and acquisitions (M&A) took a turn when private-equity firms Kohlberg Kravis Roberts and Texas Pacific Group bid for TXU. He talks with experts from Morgan Stanley, Lazard, and JP Morgan, who describe the M&A universe, while Professor Mark T. Williams goes in depth on the TXU leveraged buyout.

Then in *LNG: Desperately Seeking Supply*, Michael T. Burr explains that several new LNG plants are under construction, but firm LNG supplies remain scarce. How can empty terminals alleviate gas-price pressures?

Here is more of what you will find in the April issue:

► Natural-Gas Revenue Decoupling: Good for the Utility, or for Consumers?

Retaining adequate earnings is the driving motive for revenue decoupling (RD) among gas utilities, while conservationists view RD as necessary for the removal of resistance to energy efficiency. But the benefits of RD to consumers are less certain.

SPECIAL SECTION ON RISK MANAGEMENT

► A New World of Risks

Experts say a new set of skills and expertise will be necessary to manage the risk created by new government mandates, new market developments, and new energy technologies.

► Strong CROs: More Important Than Ever

With the chief risk officer (CRO)? Some utilities have moved risk staff under the CFO or controller, while other utilities have pushed CROs down the management hierarchy. But risk remains, and a rudimentary risk function will not do.

requirements.³

It is important to view this economic-financial relation as a cyclic process consisting of a cost-effective feedback mechanism that reviews and takes corrective action. As a result, management becomes involved with the governance of the whole process and not just financial or economic reporting. In accepting this economic/financial concept, the following issues then may be dealt with as relating to financial reporting:

- clarification of the functions of the recommending, recording, and reviewing modules to set the boundaries for financial reporting.
- clarification of elements used in a financial statement.
- clarification of the definitions for the elements used.
- clarification of the measurements for the elements used.
- clarification of the presentation of the items to be noted in a financial statement.

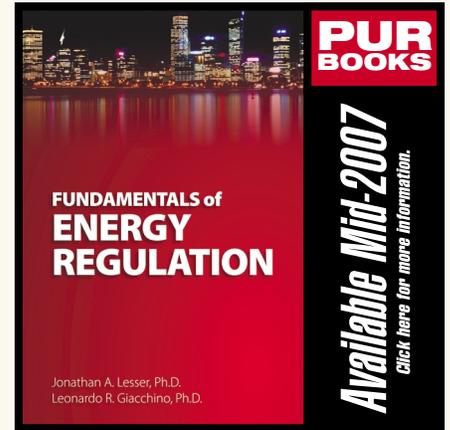
The resolution of many of these issues may require a more in-depth

look into the workings of the other modules. Although the study of these modules technically may be beyond the jurisdiction of the IASB/FASB, it may be necessary to broaden their mandate to at least scope out the key issues that would affect financial reporting. ■

Don Bjerke is a retired Professional Engineer with work experience in the area of Economic & Financial Analysis with Saskatchewan Telecommunications (SaskTel). He may be contacted at bjerke@sasktel.net

Footnotes

1. The title of the CF is: *Preliminary Views: Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. The document may be viewed at http://www.fasb.org/draft/pv_conceptual_framework.pdf.
2. The CLs may be viewed at <http://www.fasb.org> and click on comment letters on the left hand of the page. Then click on the second item in the second column Document Title next to



conceptual framework.

3. CL 176 states that "Only 17,000 of approximately 4.9 million enterprises have publicly traded stock and report to the SEC. The AICPA's rule 203 requires independent certified public accountants to adhere to GAAP when they attest to financial statements. The millions of non-publicly traded enterprises, though, should not have to bear the cost of preparing and having audited statements that do not meet or exceed their needs. GAAP, therefore, should either apply separately to corporations with publicly traded stock or should be the minimum that is useful to all companies.

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