



March 10, 2009

The Financial Accounting Standards Board
401 Merritt Seven
PO Box 5116
Norwalk, CT 06856-5116
Attn: Technical Director
(File Reference 1630-100)



LETTER OF COMMENT NO. *16*

Thank you for the opportunity to comment on the Discussion Paper entitled "Preliminary Views on Financial Statement Presentation" (file reference 1630-100, October 16, 2008).

In general, Mind the GAAP, LLC believes that adoption of the proposed model set out in the Discussion Paper would improve the decision usefulness of financial statements, while not unduly burdening preparers with cumbersome financial reporting requirements.

However, we do have some observations regarding several of the preliminary views described in the Discussion Paper. Our detailed comments around each of these matters are set out in the remainder of this letter.

If you have any questions or require further information regarding the views expressed herein, please contact Scott Ehrlich, President and Managing Director of Mind the GAAP, LLC, at (773) 732-0654 or by e-mail at sehrlich@mindthegaap.com.

- 1. We suggest that the Financial Accounting Standards Board ("FASB") replace the "Disaggregation Objective" with the "Faithful Representation Objective" and replace the "Liquidity and Financial Flexibility Objective" with the "Decision-Usefulness Objective".**

Paragraph 2.4 outlines the Board's proposed objectives of the financial statement presentation project. The second objective (the "Disaggregation Objective") is, in our opinion, an inappropriate goal of financial statement presentation.

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While we agree that financial statements require a certain level of detail to be of any value, excessive disaggregation of information would significantly reduce its decision-usefulness. If disaggregation was a true objective of financial reporting, reporting entities should simply publish their general ledgers!

We suggest replacing the "Disaggregation Objective" with a "Faithful Representation Objective." Presenting financial results in a way that faithfully represents an entity's performance must always be a key objective of financial reporting. A faithfully representative financial statement presentation should result in reports that are complete, accurate, and transparent.

We also suggest renaming the third objective (the "Liquidity and Financial Flexibility Objective") to the "Decision-Usefulness Objective". While we agree that financial statements should be presented in way that "helps users to assess an entity's ability to meet its financial commitments as they become due and to invest in business opportunities" (Paragraph 2.4), we believe that the objective is too narrowly defined. For instance, we suspect that many investors use financial statements to analyze a reporting entity's risk versus its potential for return. We are uncertain whether this fundamental aspect of investing would captured by the existing third objective. Instead, the Liquidity and Financial Flexibility Objective seems more geared for the needs of the credit community, rather than for equity investors. We believe that a broader objective of presenting information in a manner that allows both creditors and investors to make business useful decisions resolves our concern.

So, in summary, we believe that the three objectives of financial statement presentation are:

- Cohesiveness,
- Faithful Representation, and
- Decision-Usefulness

2. In our opinion, the Business section of the financial statements should not be divided into operating and investing sub-sections.

On a conceptual level, we acknowledge the theoretical benefits of separately presenting operating and investing transactions within the Business section of the financial statements. However, in practice, making meaningful distinctions between operating and investing activities may be quite challenging.

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This is particularly true if we ignore the long established practices set out in FASB Statement No. 95, *Statement of Cash Flows*, and instead take a “clean slate approach” to analyzing whether a transaction is an operating or investing activity.

For instance, should a preparer classify a piece of equipment as an operating or investing asset, particularly if that equipment will generate future cash flows over an extended period of time? Here are some differing views in addressing this question:

- View A: Presuming the equipment is currently used in operations, it should be classified as an operating asset. This means that the related depreciation costs would be presented as operating activities as well.
- View B: Few enterprises invest in equipment purely for a short-term benefit. Accordingly, equipment would be better presented as an investing asset. This means that any related depreciation expense should be classified as investing activities, rather than operating activities, under the Cohesiveness Objective.

Here’s another example: Should a preparer categorize research and development (“R&D”) expenditure as an operating or investing activity? Presumably, companies perform R&D activities to obtain benefits in the future – the very definition of an investing activity. However, current practice is to classify such expenditures as operating activities.

Because the distinction between operating and investing activities can be so nebulous, preparers would need to devote a great deal of time and exercise a substantial amount of judgment in order to separate operating and investing activities. Moreover, various reporting companies would inevitably reach differing conclusions on how similar transactions should be presented in the financial statements (see our final comment in this letter for further details). As a result, comparability between companies might be compromised, an outcome that is not beneficial to most users of the financial statements.

3. We propose that disaggregation of income and expense items by function and nature be made mandatory on the face of the statement of comprehensive income.

Paragraph 3.46 of the Discussion Paper states: “If presenting by-function subcategories and by-nature information within those subcategories results in a statement of comprehensive income that management believes is too lengthy or detracts from the overall understandability of the information in that statement, an entity may present some or all of its by-nature information in the notes to financial statements.”

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We strongly support the disaggregation of income and expense items by both function and nature in the statement of comprehensive income. Therefore, inclusion of this information *within the statement itself* should not be discretionary – it should be mandatory.

Unlike our views regarding the disaggregation of operating and investing activities (see our previous comment), we believe that presenting detailed income and expense data is critically important to financial statement users. At present, this information is typically provided to investors and creditors...just not within the financial statements (and subject to an auditor's report). For instance, it is not unusual to see expense detail by nature disclosed in the Management's Discussion and Analysis section of the Form 10-K, or in separate analyst presentations located on a company's web site.

Including this decision useful data right in the statement of comprehensive income would make it easier for users to find this important information without having to search through other sections of the company's financial statements, regulatory filings, analyst presentations, or other company postings.

4. We believe that every entity should be required to present assets and liabilities in order of liquidity in its statement of financial position.

Paragraph 3.2 states that an entity should classify its assets and liabilities in the statement of financial position into short- and long-term subcategories unless a presentation based on liquidity provides better information. However, we believe that **every reporting entity** should present its assets and liabilities on the basis of liquidity.

We find a current/noncurrent distinction to be somewhat arbitrary and based on "bright line" guidance – e.g., if the asset will be consumed with one year, it should be classified as current.

Ordering assets and liabilities by liquidity provides more meaningful information than dividing assets and liabilities into short- and long-term subcategories, regardless of how "short-term" and "long-term" are defined. For instance, under the proposed rules, an entity investing in government bonds that mature within one year could categorize the investment as "short-term" even if the entity's objective is to roll the bonds over into similar investments. Said another way, the investment would be presented as current even though, in substance, it is a non-current investment. However, if this entity was required to present its assets in order of liquidity, the presentation would better convey

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the true financial position of the enterprise and would allow creditors and investors to arrive at their own views on what is and is not current.

Ordering assets and liabilities by liquidity is practical for entities in every industry. Alternatively, categorizing assets and liabilities into short- and long-term categories does not work for entities in certain industries, such as insurance and banking. Paragraph 1.12 in the Discussion Paper states that "Alternative presentations make it difficult for users to compare financial information across entities." Therefore, mandating entities to order assets and liabilities by liquidity would be an opportunity to reduce the number of allowable presentation alternatives and improve comparability among all companies, across all industries.

We also believe that requiring presentation of assets and liabilities by order of liquidity will result in a cleaner presentation. Segregating the statement of financial position into short- and long-term categories necessarily requires more captions, resulting in a more "cluttered" presentation.

We acknowledge that common liquidity metrics used by the financial community may need to evolve under this new presentation. For example, analysts and creditors might have to find a replacement for the current ratio with some other new measure of liquidity. Nonetheless, we believe that users of the financial statements would be better served by all companies presenting assets and liabilities in order of liquidity versus a current/noncurrent allocation.

5. We believe that the proposed reconciliation schedule should be one of the basic financial statements and should be somewhat more flexible to allow for additional, meaningful content.

In our view, the creation of a new reconciliation schedule is one of the best proposals of the Discussion Paper. In fact, we believe this schedule to be so critically important that it should become one of the basic financial statements (along with the statement of financial position, the statement of comprehensive income, etc.) rather than being buried in a footnote disclosure.

We further believe that the utility of the reconciliation schedule can be enhanced by including additional columns of reconciling information where necessary. In Paragraph 4.19, the Board proposes that the reconciling items on this schedule comprise:

- Cash received or paid other than in transactions with owners,
- Accruals other than remeasurements

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- Remeasurements that are recurring fair value changes or valuation adjustments, and
- Remeasurements that are not recurring fair value changes or valuation adjustments.

We believe that these four categories are too broad. For instance, depreciation and share-based payment expense may affect many of the line items in the reconciliation schedule, but those amounts are aggregated along with other accruals in the second column of reconciling information.

It might be more useful to have, for example, separate columns for:

- Depreciation and amortization,
- Share-based payment costs,
- Bad debt expense
- All other accruals

We're not proposing that these additional columns be mandated. Instead, we would suggest that the reconciliation schedule include, at a minimum, the four categories specified in the Discussion Paper, but to allow financial statement preparers to add additional columns that would be relevant to financial statement users. It might even be appropriate for the FASB to indicate that there is an expectation that the schedule would include more than four columns of disaggregated data.

Finally, in response to specific questions raised in the Discussion Paper:

- We strongly support the Board's preference for the "direct method" of presenting the statement of cash flows.
- We believe that the reconciliation schedule eliminates the need for any "indirect method" disclosures; it appropriately links the statement of cash flows to the statement of comprehensive income and advances the "Cohesiveness Objective".

6. We believe the Board should require the use of its financial statement presentation model for all reporting entities applying U.S. GAAP, including nonpublic companies.

The proposed scope of the financial presentation project excludes nonpublic entities, as outlined in Paragraph 1.18 of the Discussion Paper.

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We oppose a carve-out for private companies. Simply, we do not believe that users of financial statements of a nonpublic entity have needs different enough to warrant an alternative presentation. Users of both public and nonpublic financial statements would benefit from financial statements that are presented in a cohesive, decision-useful, and *faithfully representative manner*. The proposed presentation model also permits a sufficient (but not excessive) amount of management discretion so that it should fit the needs of all entities applying U.S. GAAP.

7. We would like to underscore the fact that the proposed presentation model may reduce comparability of financial statements and key financial ratios from entity to entity, even if those entities are in the same industry.

Paragraph 1.13 highlights that the current lack of a standard presentation format makes it difficult for users to compare financial statements of different entities. We agree with this assessment and are in support of a common set of principles for presenting information in financial statements.

However, the management approach to classification described in the Discussion Paper will reduce comparability, as underscored by Question 5 in the Questions for Respondents. While we support the management approach to classification, users should be cautioned that allowing for management discretion may result in an overall reduction in financial statement comparability between entities, including those in the same industry.

Also, while outside the scope of this project, the Board should consider the implications a new financial statement presentation model has on key financial ratios. In our opinion, this model will generally result in more meaningful but less comparable metrics.

- For instance, assuming income and expense items are disaggregated by-function and by-nature, a user could more easily compute a ratio of *operating* Selling, General & Administrative Expense (SG&A) as a percentage of revenue; presumably, operating SG&A expenses would exclude amounts attributable to financing activities.
- However, because the classification approach relies on management discretion, this metric may not be wholly comparable to other entities, as different companies may have disparate ways of allocating SG&A costs to the finance and operating categories.

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We would like to ensure that the financial statement user community is willing to accept possible loss of financial statement comparability in exchange for an improved and common set of principles for presenting information in financial statements. The FASB should consider asking the user community for input on this question in future Exposure Drafts and roundtable discussions.

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