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Technical Director -- File Reference No. 1630-100 Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Discussion Paper: Preliminary Views on Financial Statement Presentation (File Reference No. 1630-100)

Intel Corporation is pleased to respond to your request for comment on the Financial Accounting Standards Board discussion paper: *Preliminary Views on Financial Statement Presentation*. We support the FASB's intent to improve the usefulness of financial statements. However we have several concerns with the proposal, including:

- Direct cash flow;
- Disaggregation;
- Meaningfulness of the reconciliation schedule; and
- Implementation.

Direct cash flow

We have significant concerns about whether the benefits of providing the direct cash flows justify the costs. With respect to the benefits, direct cash flows are not used by management to make decisions about resource allocation nor to assess liquidity. Therefore, we question whether the direct method of cash flows provides financial statement users with decision useful information.

Our system does not capture information in a manner that can be extracted to provide direct cash flows by function and nature. For example, we do not disaggregate our shared corporate expenses (i.e. corporate services, corporate overhead) that are allocated across business units by nature. In addition, direct cash flows by function and nature would necessitate each accrual, prepaid, and other accounts be broken into dozens of further disaggregations that are not done today. Furthermore, the disaggregation by nature does not always translate into meaningful decision useful information, particularly as only significant balances are disaggregated.

Some constituents have argued that a direct cash flow can be achieved manually without significant system enhancements through the use of an "indirect direct" methodology. Even if an indirect direct method model was allowed, it would require the use of significant estimates and assumptions. In addition, unlike the indirect method, the direct method results in a residual difference between all of the direct cash flows identified and the net change in cash on the balance sheet. There is no clear guidance or consensus for the treatment of this residual. If the direct method is required, we request guidance on this residual with respect to its treatment in order to ensure consistent application.

For these reasons, we believe a direct method cash flow would be extremely difficult to derive without a complete system solution or at a minimum a partial system solution with extensive manual process enhancements. We would incur substantial costs to modify our systems and business processes to comply with the proposed direct method cash flow. We estimate that it would cost us in excess of \$5 million in implementation costs and \$2 million a year on an ongoing basis. We believe these costs would significantly outweigh the benefits.

Alternate approaches for cash flow presentation are:

- Require direct method cash flow statement only if used by management. This would ensure that the cash flow statement provided to investors would be the same information used by management to make decisions about resource allocation and assess liquidity. This approach would more closely match the Boards' stated intentions of adhering to a management approach while reducing the financial burden on companies.
- Direct method based on current SFAS No. 95, "Statement of Cash Flows" (SFAS No. 95). In the
 absence of allowing the indirect method, we believe the SFAS No. 95 direct cash flow
 model provides better decision useful information than the discussion paper proposal.
 While many of the challenges and costs we outlined earlier still exist, we believe the
 costs, complexities, and residual differences with the SFAS No. 95 direct cash flow are
 slightly more manageable.

Disaggregation

We also have significant concerns about whether the benefits of providing the level of disaggregation suggested in the discussion paper justify the costs. With respect to the benefits, the level of disaggregation is not used by management to make decisions about resource allocation or to assess performance. Therefore, we question whether the level of disaggregation provides financial statement users with decision useful information.

A challenge with the proposed level of disaggregation we would be faced with would be in the area of shared corporate expenses. Our current systems and processes do not disaggregate the shared expenses by nature as this is not consistent with how we internally manage these expenses. For example, janitorial expenses, facility maintenance, and utilities all get booked as general and administrative expenses. These expenses are aggregated and then partially allocated as a single transfer of costs to either cost of sales, research and development and/or sales and marketing using a reasonable allocation method, such as headcount or square footage occupied. We estimate it would take approximately 15,000 hours of work to get our systems functioning in a manner that would allow reporting of exact amounts of expense by nature within each functional area, and approximately 3,000 hours to change business processes. After

implementation, we estimate we would still see approximately 1,000 incremental hours to sustain the new system and processes. Additionally, disaggregation adds multiple layers of scrutiny that would need to be applied to financial information, significantly increasing our control procedure requirements and external auditor procedures.

An alternate approach for disaggregation is to allow an exception for disaggregation of shared expenses. Disaggregation of shared expenses should be consistent with how a company manages these expenses. For example, we may choose to present a line item within the functional areas of the statement of comprehensive income that aggregates all shared expenses.

Reconciliation schedule

We believe the required schedule that reconciles the direct cash flow statement to the statement of comprehensive income does not achieve the intended benefit of increasing users' understanding of the amount, timing, and uncertainty of the entity's future cash flows. Fair value adjustments (column D) are already clearly disclosed in current filings due to the adoption of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." Uncertainty and subjectivity around other remeasurements that are not recurring fair value changes or valuation adjustments (column E), if significant, should be discussed in the our results of operations section in the Management's Discussion and Analysis of Financial Condition and Results of Operations of our 10-Q/K filings.

In addition, in practice, column E would introduce a new disclosure concept that would be difficult for a user to follow and understand the broader implications. This difficulty is primarily driven by the ambiguity and lack of clear guidance on what could be classified under column E. For example, in the ToolCo example in the discussion paper, equity method income was classified under column E, likely as it could be viewed as a remeasurement of the investment's carrying value. However, due to the recurring nature of the activity, classification as an accrual other than remeasurement (column C) could be more appropriate. Without clear guidance, there would be no comparability in treatment of various changes in accruals and estimates, such as litigation contingencies, uncertain tax positions as defined by FASB Interpretation No. 48, allowances for doubtful accounts, and other accrual estimates made by management such as profit-dependant employee bonuses and warranty reserves.

Alternate approaches to the required reconciliation schedule are:

- Retain the concept of the reconciliation schedule; however:
 - Limit the remeasurements of column E to strictly non-recurring fair value changes;
 - Provide specific guidance outlining what should be included in column E to ensure comparability across companies.
- Eliminate the reconciliation schedule and instead, require significant remeasurements be
 disclosed in the footnotes to the financial statements. Remeasurements, regardless of whether
 they required significant management judgment, should be disclosed in the footnotes, if
 material. This would provide decision useful information for users without creating new
 disclosure concepts that are difficult to follow and impair comparability.

Implementation costs

We believe that implementing the proposed financial statement presentation model would consume extensive resources. It will require us to invest in system upgrades, redesigns or even possibly a grounds-up development of current financial systems. While current systems may already contain the financial data, they are not configured to accumulate or report the data in the proposed presentation format. As it relates to the direct method cash flow statement, a system solution would be necessary to mitigate some of the inherent challenges with the direct method.

We would incur significant costs to get our systems and processes ready to support the proposed presentation. We estimate the total costs to be in excess of \$6 million for implementation and expect to incur at least another \$2 million a year on an ongoing basis. We have considered costs associated with system upgrades to our current general ledger, other subledger systems that feed into our ERP system, and general ledger hierarchy changes. Our evaluation also includes reporting implications, including development of the new statement of comprehensive income, statement of financial position, and statement of cash flows, all of which requires updates to supporting reports as well as development of new reports. To facilitate the transition we included costs to run parallel systems and reporting for a limited time period.

In addition to system infrastructure costs, we anticipate we would need to consume significant headcount resources both to implement and then to support the proposed changes. We estimate our implementation burden to be over 70,000 hours, and another 20,000 hours a year on an ongoing basis. The resources needed for this implementation range from overall project management and changing business processes and systems to updating eXtensible Business Reporting Language tagging and testing internal controls. The vast majority of the hours are attributed to significant business process changes needed due to the challenges we face with allocated expenses and the direct cash flow. Finally, the time and costs for internal training of finance, accounting, and senior management is expected to be extensive. We also expect that the added detail and complexity would produce incremental external audit costs.

Implementation timeline

We are concerned about the implementation timeline, which although not explicitly stated in the discussion paper, the FASB has indicated it is targeting to be effective for 2012 year-end financial statements. We estimate that an implementation project to fully implement the requirements stipulated in the discussion paper would take us a minimum of 2 years from the issuance of the final standard to accurately and reliably change and test systems, processes, and controls. In addition, we believe that such a change would not be as meaningful without 3 years of financial statement information. However, many of the system and process changes must be made at the transactional level, which means that the implementation project would have to be fully complete prior to the beginning of the first year to be presented. We strongly recommend that if a final standard is adopted as proposed, the effective date be no sooner than 5 years from the date of issuance of the final standard.

In addition, we are concerned with the implications of such a fundamental change to financial statements in light of the SEC's move towards International Financial Reporting Standards (IFRS). Both projects will require large, dedicated, and knowledgeable project teams as well as

resources throughout the company to successfully implement these projects. If IFRS and the changes suggested by this discussion paper are simultaneously implemented, or if the timelines for the implementation overlap, it will create a tremendous amount of avoidable stress on our systems and reporting infrastructure. We believe an appropriate separation of timing is necessary to ensure we can accurately and reasonably adopt these standards.

Thank you for your consideration of the points outlined in this letter. We appreciate the opportunity to comment, and hope that you will consider our comments. We would be happy to answer any questions that you might have and assist you in the further development of the underlying details. If you have any questions, please contact me at (971) 215-7931, or Matt Sepe, External Reporting Controller, at (408) 765-6087.

Sincerely

James Campbell

Vice President, Corporate Controller