



LETTER OF COMMENT NO. 113



April 14, 2009

Russell Golden
Technical Director
File Reference No. 1630-100
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Preliminary Views on Financial Statement Presentation

Dear Mr. Golden:

Alcoa appreciates the opportunity to comment on the joint Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") Discussion paper entitled "Preliminary Views on Financial Statement Presentation". Alcoa is the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined, through its active and growing participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling.

Overall, our views on the proposal in the discussion paper are mixed. We are supportive of the objective of presenting a cohesive set of financial statements, in particular, the segregation of both the statement of comprehensive income and the statement of financial position between operating, investing and financing activities. However, we do have major concerns related to the direct method of cash flows and the proposed reconciliation between the statement of cash flows and the statement of comprehensive income. We believe the costs involved in arriving at an auditable direct cash flow statement far outweigh the benefits to be derived by users from this information. We also recommend that the future exposure draft include guidance on the treatment of non-controlling interests. Below are our responses to questions which are relevant to our business and the issues we perceive related to the proposed new format.

Chapter 2: Objectives and Principles of Financial Statement Presentation

1. Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the Boards consider any other objectives of financial statement presentation in addition to or instead of the objectives propose in this Discussion Paper? If so, please describe and explain.

We believe the cohesiveness objective as described in paragraphs 2.5 and 2.6 would improve the usefulness of financial information and segregating between business, investing and financing activities is relevant to users. This segregation is logical and consistent in many respects with the way management looks at our business. We also believe this objective could be accomplished without significant costs to preparers (simply by grouping lines in the balance sheet and income statement more logically). While we also can support the disaggregation of information in financial statements (particularly the balance sheet and statement of comprehensive income), we believe the cost/benefit justification of this objective will be more difficult for many companies. We have a relatively robust chart of accounts structure which allows us to readily disaggregate a number of line items by nature. However, this capability is the result of significant investments made by us in information systems which were justified for many business reasons other than more detailed financial statement presentation. In addition, while we use some of this disaggregated data internally, we are uncertain as to the issues that may arise when that data becomes "auditable" when it is included in our external financial statements.

2. Would the separation of business activities from financing activities provide information that is more decision useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

In general, we believe that this separation on the statement of comprehensive income provides more useful information than the format used today. However, in our particular case, the information on the current statement of financial position is fairly clear and the new format would not be substantially more useful. For example, our financing assets and liabilities are primarily limited to our cash, commercial paper and long term debt, all of which are already separate lines on our statements. We see this as more of a benefit to a business where financing assets and liabilities are more numerous and significant to the overall business and were previously "buried" in other line items.

3. Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36, and 2.52–2.55)? Why or why not?

We agree that equity should be presented separately from the financing section as this calls attention to the owner's portion of capital vs. debt levels. We feel that this method of presentation is clearer.

4. *In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37, and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities)? Why or why not?*

We believe the separation of discontinued operations into a separate section would be useful to the financial statement reader. Once an entity is moved into discontinued operations, the internal focus of management would be the exit of the business via sale or shutdown. Therefore, that business should not be mixed with the ongoing operations, investments or financing.

8. *The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income, and cash flows. As discussed in paragraph 1.21(c), the Boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the Boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model? Please explain.*

We do not believe significant amendments are necessary to existing segment disclosure requirements. We feel the segment disclosures should remain as operating in nature. We do not envision any additional disclosures in investing and financing areas by segment being significantly valuable to the financial statement users. (Capital expenditures by segments is useful, but that is disclosed under current requirements.)

Chapter 3: Implications of the Objectives and Principles for Each Financial Statement

12. *Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?*

We believe that the current definition of cash should include cash equivalents which can be immediately converted to cash without penalty as of the reporting date. If the cash equivalents are truly short-term investments that cannot be converted without penalty at the reporting date, these should not be included in cash.

14. *Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?*

We believe that the presentation of comprehensive income and its components on the income statement does not add a lot of value to financial statement users. The total presented on the balance sheet (other comprehensive income) plus the breakout on the equity schedule is sufficient. Based on

our experience, financial statement users do not view other comprehensive income with near the same importance as net income. Including other comprehensive income and net income together with equal prominence in a statement is not consistent with how this information is used.

16. Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains, and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision useful to users in their capacity as capital providers? Why or why not?

This level of disaggregation would most likely provide information that is useful to financial statement users as it would indicate the nature of expenses which respond to different economic inputs. On occasion, we present this information to analysts to help explain our results. For example, as energy is a significant cost component for Alcoa, we occasionally discuss the portion of cost of goods sold related to energy. However, the disaggregation should always be consistent with how management runs the business and not mandated by the standard as being the same for all companies. We also would reiterate our comments earlier in our response on the cost/benefit and “auditability” considerations of providing this data.

18. Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

a. Would this provide decisions-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

b. What costs should the Boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

In our opinion, this information does not add a lot of value to the financial statement user and would be very difficult to calculate. Many Enterprise Resource Planning (ERP) general ledger systems calculate foreign currency remeasurement in total based upon a template containing the accounts to be included in the remeasurement. It is impractical to create a separate template for each account which could increase system run time and risk of data errors. The additional costs would relate to template setup, chart of accounts structure, ongoing system maintenance and more detailed reconciliation requirements. In the end, it is not relevant to the financial statement user which area the foreign currency exposure relates to, but rather the exposure in total to the entity.

19. Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

a. Would a direct method of presenting operating cash flows provide information that is decision useful?

b. Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

c. Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

We believe the costs far outweigh the benefits in of preparing the direct method of cash flows. ERP systems have historically not been set up to capture data at this level. Some of the difficulties associated with the preparation of a direct method cash flow statement include the impact of foreign currency transactions, expansion of the chart of accounts to track cash expenditures by nature and the increase in system volume by the creation of these additional transactions. Also, we question whether the information to be provided by the direct cash flow method is being demanded by users of financial statements. Unlike the disaggregation of income statement items by nature, we receive very few (or no) similar requests for direct cash flow information. We believe that the information provided by the indirect method is just as useful but without the extra cost of implementing a direct cash flow reporting system. Regarding (b), we believe that the direct method is no more consistent with the cohesiveness objective than the indirect method.

20. What costs should the Boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between oneoff or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

We should note that we have invested approximately \$1 billion over a number of years in developing one ERP system with a limited number of instances and a common chart of accounts. Even with that investment complete, we estimate the incremental cost to capture direct cash flow information to be approximately \$20 - \$30M. Use of the “indirect” direct method (deriving cash flows from the income statement plus or minus change in the relevant balance sheet items) does not add any value over the actual indirect method, certainly not to justify the above expenditure. We are unable to determine ongoing costs at this time but they would relate to hardware maintenance, development and use of system resources. We are also unable to determine future compliance costs (external audit fees, internal control changes) which would be associated with reporting under the direct method.

Chapter 4: Notes to Financial Statements

23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

a. Would the proposed reconciliation schedule increase users' understanding of the amount, timing, and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

b. Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

c. Is the guidance provided in paragraphs 4.31, 4.41, and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

We do not believe that such a reconciliation schedule is useful to the users of the financial statements and would not generate the benefits described in (a) above. US GAAP and IFRS both are accrual based systems, and the reconciliation schedule appears to be driven by the direct cash flow initiative which, as discussed above, does not meet the cost/benefit test.

25. Should the Boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B.10–B.22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

We do not believe that these reconciliations would be useful to the users of financial statements, similar to our comments to question 24.

26. *The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.*

a. Would this information be decision useful to users in their capacity as capital providers? Why or why not?

b. APB Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

c. Should an entity have the option of presenting the information in narrative format only?

This information would be useful to financial statement users. We believe that the unusual or infrequent items should be disclosed separately on the face of the income statement as they are today. Much like discontinued operations, many analysts separate information of this nature from their evaluation of the ongoing operations of the business. As such, it should be clearly broken out and not mentioned in a memo field or narrative only. It would appear reasonable to add a narrative in the notes section to describe details related to the unusual items or restructuring programs.

We appreciate the Boards' consideration of these matters and welcome the opportunity to discuss any of the above responses.

Sincerely,

Tony R. Thene
Vice President and Controller
Alcoa Inc.