April 14, 2009

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

Re: Preliminary Views on Financial Statement Presentation

Dear Mr. Golden:

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to share its views on the joint Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") Discussion Paper entitled "Preliminary Views on Financial Statement Presentation" (the "proposal"). FEI is a leading international organization of senior financial executives. CCR is the senior technical committee of FEI which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

On February 9, 2009 we filed our initial comment letter to the FASB and the IASB (the "Boards") highlighting our primary concerns with the proposal. While we are supportive in principle of the objectives underlying the proposal and agree that there should be a standard in both US GAAP and International Financial Reporting Standards ("IFRS") that defines the form and content of financial statements we expressed at that time three critical concerns: 1) the usefulness and cost/benefit proposition of a direct method cash flow statement, 2) the associated reconciliation of the direct method cash flows to the statement of comprehensive income and 3) the usefulness and cost/benefit proposition and usefulness of disclosures of expenses by nature. If information required by this proposal was critical to evaluating and managing a company's operations then management tools and processes, financial software, etc would have developed over the years to address this need. In as much as they haven't we believe the Boards should interpret such absence as indicative of the lower level of importance these disclosures would generally have. At this time, we have expanded upon our earlier letter with additional detail for consideration. Included in two

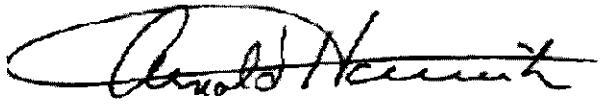
attachments are a detailed response to the questions posed by the Boards and our initial comment letter.

As evidenced by our response to the questions asked we are, in summary, deeply concerned that there is a real gap between the theory proposed and the practical reality that the Boards are trying to accomplish. We would recommend that you reconsider certain specific provision of the proposal. It would be best to have a more practical alignment with the businesses who would be preparing this unique data and the true economic costs versus benefits of preparing the data. Specific to cost we have outlined some of the major issues driving cost factors, but also respectfully request that the Boards solicit specific feedback regarding the relative importance and specific use of this information relative to cost.

Additionally, a further consideration of the Boards' review should be the timing of this project as the Boards have a very aggressive agenda towards convergence over the next several years as outlined in the IASB-FASB Memo of Understanding. We recommend that the Boards reconsider the timing of this project relative to the potentially more pressing needs for convergence around accounting and measurement of underlying transactions. Convergence in these areas is more critical and given limited resources, the financial statement project should be re-prioritized lower down the list.

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

Sincerely,



Arnold C. Hanish
Chairman, Committee on Corporate Reporting
Financial Executives International

Cc: International Accounting Standards Board

Attachments:
FASB questions for respondents on Financial Statement Presentation
Comment letter filed on February 9th, 2009

Attachment:

FASB Questions for Respondents – Financial Statement Presentation

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 proposed in this Discussion Paper? If so, please describe and explain.

We are in general agreement with the overall objectives of cohesiveness, disaggregation and presentation of liquidity and financial flexibility. We do have several observation and comments, however on some of the specifics as to how these principles are described and applied:

Paragraph 2.6 describes a cohesive financial picture meaning that the relationship across the financial statements is "clear". In this context we would substitute with the word consistent. The term clear carries a connotation of reconciliation of each line item across each financial statement. We agree with the cohesiveness concept as it is applied to sections and categories, as outlined in the document but this concept should not be applied to line items within categories. Paragraph 2.15- 2.16 indicate that this is a goal but not a requirement. This should not be either a goal or a requirement in and of itself. This information at the line item level should only be provided if it provides decision useful information in the context of the total financial statements. In many cases we do not believe reconciliation on a line item level, would add significant useful information to a user and significant incremental costs would be required to track such data across a corporation. In addition, given the significant burden to implement systems to track such information (since such information is generally not used for decision making within a company), there would be an incentive for companies to restrict the line items in any one financial statement resulting in a conflict between the cohesive and disaggregation objective. This could lead to companies reducing the items to be presented. Focusing on the cohesiveness concept at the section and category level achieves the cohesiveness objective which provides decision useful information to readers of the financial statements.

Paragraph 2.29 gives classification guidance, which is proposed to start from the statement of financial position and be applied consistently, throughout the remaining financial statements. The guidance in paragraph 2.29 is

demonstrative of a much larger issue being caused by the Boards' movement to more of a balance sheet focus on financial reporting. The Boards have been moving in a direction which may be described as "Balance Sheet is King," whereby the activities in the statement of operations result not from earnings activities, but from underlying balance sheet activities. This approach represents a major divergence from how companies actually run their business. Companies are formed, organized and managed around processes and functions that manage the profit making opportunities of the company. The statement of operations, generally displayed internally using a functional classification, is the key reporting tool used by management to assess performance and allocate resources. The statement of financial position is not the primary statement used to manage a business. The classification scheme should follow this same path from the statement of comprehensive income to the cash flow statement and then to the statement of financial position.

In paragraph 2.7 when stating the objective on disaggregation the emphasis is on information that will be useful in assessing future cash flows. We feel that this is too restrictive. As stated in the introduction financial statements are used in many different ways, and the primary emphasis should not be solely for projecting future cash flows. The prime reason is to allow a user to holistically understand the operations of the business model. From this a user will assess past performance of both the business and management and then project this along with business segment information, management commentary, and supplemental financial statement disclosures into future operations and cash flows. Accordingly we feel that the word future should not be in the definition of disaggregation and it should refer to operations and cash flows.

The disaggregation principle as defined in 2.7 needs to consider the cost benefit relationship.

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?

We agree that this separation would clarify what management considers as financing vs. core operations. We think the usefulness versus today's reporting will vary by industry but is a worthwhile distinction. Importantly, we also support a management approach, rather than a prescriptive approach. See further perspective on this in our response to question 5.

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?

Equity, while a source of capital like financing, reacts differently to market forces and is utilized in a different way than liability financing. We agree it is appropriate to separate these sections.

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?

The separate presentation of discontinued operations as currently done in US GAAP is the most appropriate presentation method. This will allow a user to better view what the operations of the continuing business were in the past such that they may assess the potential operations in the future.

5. The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34, and 2.39–2.41).
a. Would a management approach provide the most useful view of an entity to users of its financial statements?
b. Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

We believe the management approach as outlined is the best approach. Each company is organized around profit making processes that vary from company to company. Many will be similarly aligned but the objectives and motivations of one organization may be different than another and should be displayed as such. While this may give different results for similar processes within two different companies we still feel this is the most appropriate approach. If an objective of the financial statements is to give user insight into the business operations of that company to enable them to better assess future earnings and cash flows, this approach appears to be most useful. If the Boards require a prescriptive presentation that is at variance with the way the business is managed, a user may find it more difficult to understand the business as it is currently run, and thus more difficult to assess the company's future prospects.

In addition we wanted to point out that the financial statement section of a public company's Form 10-K is not an independent document but is one section of the larger SEC filing. At least two other sections of the Form 10-K, Item 1 – Description of the Business and Item 7, Management's Discussion and Analysis, require management to discuss the affairs of the company 'through the eyes of management'. To have the financial statement section portrayed on a prescriptive basis that is at variance with the rest of a

company's public financial reporting is a disservice to the users of these documents in that it will complicate immeasurably a users ability to understand the entirety of the information included in the Form 10-K.

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the **statement of financial position.** Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

We feel that this presentation is appropriate. However in the absence of a classified balance sheet that presents total assets, liabilities and equity, it may make it more difficult to calculate some key ratios, such as working capital, debt and equity ratios, leverage etc. Most key ratios are currently able to be calculable from financial statements as they currently exist.

7. Paragraphs 2.27, 2.76, and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

As mentioned above companies are organized around business processes and flows rather than assets and liabilities. For example many companies have instituted shared services and supply chain management organizations that combine and manage assets and liabilities in common pools rather than by specific businesses or segments (e .g. shared plants and distribution centers). Companies do the same for certain shared services. For example, companies whose segments sell to common customers may use shared order, shipping, billing and collection services, in which case receivables and collections are not managed or tracked at the segment level. Given that this is a part of how business is conducted; an approach that looks at assets and liabilities being attributed to segments can not always be achieved. Even if a company was able to develop extensive asset and liability allocation models to report such on a segment basis we believe the allocations will be at best subjective and frequently arbitrary. Auditability beyond testing mathematical accuracy of the allocation tools would be essentially nonexistent. Accordingly a mandate to evaluate assets and liabilities by segment may not be realistic to achieve, and we would object to such an approach. If the Boards ultimately require more detailed segment classification of the balance sheet, we would include a concept that such segment classification should be consistent with how a company manages its business. For the reasons cited above, this should not be prescriptive.

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 any additional disclosures are needed. However if the Boards contemplate changes in segment disclosures then the concepts noted above in number 7 around structures in a company should also be taken into account. SFAS 131 also has a "management's view" concept similar to the discussion paper, however it also has a concept that you only display what is internally used by the company in managing the business. Some of the concepts put forth in the discussion paper seem to indicate that this might not carry forward and that disclosures by segment might be considered even if management does not use these measures to run the business. We don't believe that this would be useful to investors as this is not how the assets and liabilities are utilized within the company to generate returns. Additionally, this might also lead to confusion in projecting future operations as it would be in variance with how those assets would be used internally to generate future returns. It is important to keep the external disclosures in line with how the business is being managed internally such that an investor can see how returns were generated to be able to best assess the future prospects of the company. If information is currently not being regularly reported to or utilized by the CODM within the Company, we would question the relevance of such information for the investor.

9. Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

> We feel that the definition of the business and investing category are reasonable as written. We do make the observation that the definition of investing is much more restrictive than that being currently applied and we doubt that there will be many assets or liabilities categorized as investing under the new definition.

10. Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and U.S. GAAP as proposed? Why or why not?

> The definitions are appropriate and that the financial section should be restricted to financial assets and liabilities.

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

11. Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.
a. What types of entities would you expect **not** to present a classified statement of financial position? Why?
b. Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity?** If so, what additional guidance is needed?

> We believe that most entities will present a classified statement of financial position as this more closely aligns to the current presentation. Entities should have a choice of presentation based on the relevance of presenting a statement of financial position in order of liquidity. Further guidance is not necessary.

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?

> As a practical matter, if a corporation were to present its cash as only demand deposits and cash on hand, most well run companies would have no cash on their statements of financial position. Most well run companies utilize sweep accounts on a daily (or less) basis to consolidate cash and invest it in at least overnight deposits. From a process management standpoint cash and cash equivalents are managed in the same process with no distinction. We understand that given the current credit crisis, what some thought were cash equivalents turned not to be always equivalent therefore cash and cash equivalents may need to be disclosed separately. An alternative approach would be that for the statement of financial position cash and cash equivalents be disclosed separately. However, the cash flow statement reconciliation should be done to the combination of cash and cash equivalents. This would improve disclosures around cash equivalents and also reflect the reality of how cash is managed. Under this proposal we suggest that interest earned on cash equivalents be classified in financing activities. We don't view this as a violation of the cohesiveness principle; it is merely a definition of how to prepare the cash flow statement.

13. Paragraph 3.19 proposes that an entity should present its similar **assets and liabilities that are measured on different bases** on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

> We believe that separately presenting in the balance sheet assets and liabilities that have been measured on different bases may in certain circumstances be useful to a reader of the financial statements. In other circumstances it may

reduce clarity and understandability. For example, separately reporting plant and equipment that has been measured at fair value due to acquisition or impairments would not be meaningful. The accounting policies for these measurements are disclosed in the footnotes and any significant adjustments would also be captured in footnote disclosure (e.g. FAS 157 disclosures). We are also uncertain of other practical implications of such a disclosure change. We recommend that the board fully explore the implications of this proposal through the field test and at a minimum restrict this disaggregation to measurement differences that are done on a recurring basis.

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 feel that a total of comprehensive income is not a relevant measure that is used by preparers or users in any meaningful manner. We believe the primary focus of both company management and investors is operating and net income. Any presentation of results that potentially diminishes the prominence of those measures will not be to the benefit of investors. Presenting a single amount at the bottom of the statement of comprehensive income will give that amount prominence as if it were a relevant measure. Given this we feel that companies should be given latitude as to not how but where they display the components of other comprehensive income. Alternatives could be as a separate statement or as a subcomponent of the statement of shareholders equity. Under each of these alternatives it would help clarify that Earnings per Share is calculated based on net income rather than comprehensive income. Currently the examples in the discussion paper display EPS below comprehensive income. A reader could conclude that EPS was calculated on comprehensive income rather than net income.

15. Paragraph 3.25 proposes that an entity should indicate the category to which items of **other comprehensive income** relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision useful? Why or why not?

The disaggregation of this information is generally not used by management to run the business. Accordingly, we do not understand how it might be useful to a user. Before proceeding with this approach, we would encourage the Board to solicit more input on specifically how the information would be used by investors in the decision making process.

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?

Certain additional disaggregation of revenues and expenses by function may be helpful to the reader. However we do not feel that such disaggregation by nature is helpful or feasible on a cost /benefit basis. Below are our rationale and our suggestions in these areas that we included in our previous letter to the boards.

Initial feedback from field test participants is that most U.S. businesses provide information by function and current systems are not configured to accumulate information by nature, calling into question a cost benefit payback. While information by nature may exist within accounting systems for most companies, processes and controls are rarely configured to accumulate information in this way. While used on a day-to-day basis, by say a department manager to manage his/her departmental budget, senior management does not use such information for decision-making purposes. As you progress further up the organization, information is generally only summarized by function above the departmental level.

In support of this assertion, we suggest the Board's staff review the annual reports of a sample of major corporations – specifically the list of executive officers. We submit you will find operating officers with functional titles such as 'Vice President – Strategy' or 'Vice President – Manufacturing' etc. You will not find executive officers with titles such as 'Vice President – Overhead Costs'. This highlights our point that companies do not manage on transactional level revenue and cost data; they manage on the basis of functions and information systems are designed around this objective. If information by nature were mandated, then significant investments in systems would be required. These changes and investments need to be made not in a top-level consolidation gathering system but in each general ledger system that a corporation has in its global operations. This would be a significant investment in both manpower and dollars for systems that a company will not use to run its business. Importantly, this investment would not be limited to designing new report-writing capabilities to accumulate and extract the more detailed information. In many companies, it would also require significant investments in hardware, since current systems would not have the capacity/volumetrics to support the added data load. Another concern involves the allocation of costs from one department to another, or from one function to another. Allocations are typically made as single transfers of costs without regard to the nature or details comprising that allocation. We believe a robust cost benefit analysis should be completed to assist the Boards in their deliberations.

Further complications exist if a company is a manufacturer. Many manufacturing companies use cost systems that employ a standard costing protocol. In some cases, costs are accumulated and aggregated across factories and products. Cost systems then distribute actual costs across units using a standard bill of materials. Once inventory items are "shipped" from inventory

into cost of sales, the dollar value of the inventory is moved from inventory to cost of sales. In doing so, the characteristics of the costs (as accumulated in the bill of materials) are lost. Standard systems are unable to recompile the cost information in cost of sales to produce cost information by nature. As an alternative, companies could disclose the standard approximate percentage by nature based upon estimates using a standard bill of materials and relative product mix for the period. We believe such information would be most useful to an investor and strikes a reasonable cost-benefit balance.

We feel that additional information may be useful to investors in some of these areas; however, a prescriptive solution will not be helpful, as all corporations are not run in the same manner. We feel that use of a method such as Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, where information disclosed is based on what management currently uses to run the business would serve investors best. As discussed above, specific areas that we feel would be helpful to investors would be further breakdowns of large financial statement lines such as Cost of Sales and Selling, General & Administrative expense. These added disclosures should be based on a concept of "disclosure of the significant drivers of the business". For instance, marketing expense might be a significant driver to one business but not to another. Likewise, certain businesses may feel that certain expenses by nature are significant drivers to their business and would be a required and informative disclosure. One could argue that a "management approach" would diminish comparability between similar companies. However, the current proposal would also result in comparability issues. For example depending on how a company manages its supply chain, the nature of expenses within cost of sales could be completely incomparable depending on whether a company sources and distributes all of its products, out sources the production and distribution of all its products or uses a mix. The same could be said for administrative expenses depending on the use of outside service providers. In the end, users will not be able to compare and contrast a company's relative costs with other companies' costs at the "nature" level.

17. Paragraph 3.55 proposes that an entity should allocate and present **income taxes** within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision useful to users? Please explain.

The current practices and methodologies within US GAAP give the most meaningful display of results. These practices to allocate taxes to continuing operations, discontinued operations, OCI and certain specific components of equity are well established, understood by both preparers and users and give a representational display of the results.

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?

This is an area that we agree in principle; however we are currently uncertain of the practical implications and costs of implementing such as principle. This is relevant because while we agree in principle, if the costs are significant then the benefits need to be quantified along with the costs. We feel that this is an area that needs to be explored in the field test to further clarify the practicality of the principle. Several areas that may be problematic include foreign currency transactional effects on intercomapny accounts and foreign currency risk that is managed centrally. If these areas are pervasive or significant for a company the allocation of such remeasurements could be difficult and costly.

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?

As outlined in our February 9, 2009 letter, we strongly believe that the costs to implement a direct method cash flow statement far outweigh the benefits to be derived. We question how critical this information is to financial statement users and how specifically it will be used in practice, particularly as the information provided through the direct method is generally not compiled or prepared, and rarely if ever used by management to make business decisions. Below we have outlined what we believe are two approaches that could potentially be used to achieve presentation of a direct method cash flow statement and the challenges related to each:

o Create the direct method cash flow statement from transactional data

Most CCR member companies are global corporations utilizing multiple currencies and several ERP systems. Most ERP systems and the underlying

accounting and consolidation systems are not designed to capture cash flows under a direct method reporting convention. These two factors would make utilizing the direct cash flow method a very costly undertaking. We believe that as proposed, many companies would need to not only convert to one ERP accounting system worldwide, but would need to be on a single instance of that ERP system. The detail transactional data would need to be captured such that a corporate entity would have the ability to match detail intercompany transaction flows on a transaction-by-transaction basis. Companies would need to fundamentally redesign reporting systems infrastructure from the bottom (transactional) level up. An implementation of such magnitude would be very costly and would take multiple years to implement, without a corresponding matching benefit to investors. This type of significant change would also further stretch the already limited resources in light of the global economic environment.

Expanding on the previous point, the cost would be even greater if a company's information systems were older technology than ERP systems (i.e. what are referred to as legacy systems). A mature multinational company primarily utilizing legacy systems might have hundreds of general ledgers and even greater numbers of transactions systems, subsidiary ledgers and trial balances. The cost in terms of time and money to convert each of these systems and to develop timely reporting capability quite simply cannot be justified. Re-programming legacy software applications must always be approached with extreme caution because of the risks involved with modifying code.

For illustrative purposes, some of the difficulties with using currently configured systems to prepare a direct method cash flow from transactional data are:

• Financial transactions are created in functional currencies. Depending on the system involved, these transactions may be summarized in financial statements and supplemental data for consolidation purposes by using average exchange rates.

• To create a cash flow statement, you cannot use average exchange rates when currencies cross and are exchanged for different currencies. These would need to be tracked based on actual flows and actual exchange rates. Even if some common exchange rates were used, there would be a difference that is due to these differing rates that would need to be "plugged". Without significant tracking, this "plug" could not be verified with any degree of confidence. This would call into question the representational faithfulness of the information and its verifiability.

• Intercompany transactions would also cause further complications that would lead to added costs. In order to properly eliminate intercompany activity for purposes of a direct method statement of cash flows, the activity would need to be tracked on a transaction-by-transaction basis and then converted at the actual

exchange rates used in completing the transaction. An average or static rate could lead to vast differences as demonstrated by recent significant fluctuations of exchange rates over short durations.

• Most general ledger transactional postings are generically coded. In simple terms, a company either debits or credits an account to reflect a transaction or accrual regardless of the nature of the underlying transaction (e.g. whether or not a payable is related to an expense or a capital transaction.) To capture direct cash flow impacts at the transactional level would require companies to re-engineer the systems and processes to capture full roll-forward activity through the creation of multiple sub-accounts or "transaction types." For example, an accrued liability account would need either separate sub-accounts or distinct transaction posting codings to separate the initial accrual, payment and other accrual adjustments. Again, such system and chart of account changes would be extremely costly.

o Create the direct method cash flow statement by use of an indirect method

Companies could "back-in" to the numbers by using existing statement of financial positions and supplemental data.

Preparing certain line items such as collection of receivables, interest paid and taxes payable may be feasible by some companies using current systems. However even in this area, companies with multiple element arrangements or extensive hedging operations may have difficulty in accumulating or calculating these amounts.

Additional difficulties would be encountered in using this approach for other expense amounts. While certain expenses such as payroll may have a unique liability account associated with it, the vast majority of expenses go through an accounts payable account. To use an indirect method, a company would need to have its accounts payable, and all its liability accounts, broken down by both function and further into the natural accounts to which they relate. This would require significant investment in time and dollar cost to add fields to existing general ledger systems around the world to track and then report this information. Alternatively, estimates would need to be used.

o If estimates were used, they would be by necessity very broad based estimates due to the limited data available. Broad estimates would call into question the representational faithfulness of the information and its verifiability and would reduce the benefits of such information to the user. If the estimates need to be more refined, a significant additional investment in systems would be required.

We believe that any statement constructed in such a manner would have to be prepared at a highly summarized level (e.g. only certain expenses are broken out while other major categories are shown as "other expenses) or its

reliability would be questionable due to the vast simplifying estimates that would need to be made. As a result, this process would yield less reliable and informative data for use in making future projections.

In our experience dealing with users of financial statements, any incremental benefit of a direct method cash flow statement would be greatly outweighed by the associated cost to the shareholders. As an alternative, we believe that the Boards should continue to allow for the use of the indirect method, with additional disaggregation of statement of comprehensive income data provided in notes to the financial statements. In our communications with our financial statement users, most inquiries about future projections come in the area of either 1) increased breakdowns of expenses such as further information on Cost of Sales and Selling, General & Administrative expenses or 2) additional perspective on working capital and its impact on cash flow. This additional information could be provided in either the statement of comprehensive income or in the notes to the financial statements. These breakdowns would give more information about the past drivers of the results thereby allowing users to formulate their expectations of future results. We feel that this type of approach would give the best return to financial statement users vs. providing a direct method cash flow statement.

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 one-off 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?

The costs to be incurred in implementing a direct method cash flow from transactional data would be significant on both a onetime basis and on ongoing basis. Above we outlined many of the one time costs to either convert or change systems. On an ongoing basis, the sheer volume of data that would need to be gathered and stored, manipulated and controlled to compile the statement would be significant. This is exacerbated by the fact that it is not used to manage the business and as such would be incremental to the costs and control processes supporting data that is necessary to run the business. This results in added ongoing costs of maintaining, storing and updating such data and systems in the future.

21. On the basis of the discussion in paragraphs 3.88–3.95, should the **effects of basket transactions** be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

As paragraph 3.89 suggests, assets and liabilities acquired in a basket transaction need to be recorded based on the nature of those individual assets and liabilities. It also seems reasonable that such transactions are usually the

result of a single action by the company (acquisition or disposition) and should be reflected as such in the other financial statements. Accordingly, items like gains or losses on dispositions or cash flows on acquisitions should be classified where the predominance of those operations took place. If this was an operating unit that was included in operations the gain or loss should be included in the operating section. Likewise if an acquisition is intended to be included in the operating section of the statement of comprehensive income the cash flow should be classified in operations. Any allocation to separate sections would be somewhat arbitrary and would probably more confuse a user than assist them. Such basket transactions if significant usually are accompanied by explanations in the footnotes and such explanations should make it clear on the classification in each of the statements. We understand that this would be somewhat at odds with the cohesiveness principle but in an overall sense be the most clear presentation method.

Chapter 4: Notes to Financial Statements

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

Short-term contractual assets and liabilities are due by definition within a year. A maturity schedule does not give any added value. The SEC already requires a contractual maturity schedule for long term assets and liabilities to be presented with any filings. If the Boards were to consider such a schedule not all entities should be required to do so.

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.

The issues discussed above, relating to the direct method cash flow pertain to a greater degree to the schedule reconciling direct method cash flows to the statement of comprehensive income. This cost and effort to companies to compile and present the data needed to support this reconciliation results in even greater complexity than the direct cash flow statement itself. Under existing system configurations, it would be extremely difficult and costly to obtain the information required. If estimates were used to provide the information this would again call into question the validity of that data. The incremental costs that would be incurred to update existing systems would far outweigh any perceived benefits of this disclosure. In addition, one needs to look no further than the sample reconciliation in the proposal to conclude that it would be confusing to investors. As financial executives responsible for preparing both management and external financial reporting, we are at a loss to understand what the added level of data is conveying or how it could be useful to manage, let alone assess the management of our businesses

Within the context of the current predominant indirect cash flow reporting model, consideration could be given to providing additional disclosures regarding remeasurements, including recurring and non-recurring fair value changes or valuation adjustments. Overall, we do not believe providing information about normal accruals is beneficial to the user. These are a normal part of the accrual method of accounting we use today. Deconstruction of that accrual method and in effect accumulating and displaying all of the period end journal entries made by a company around the globe would entail significant costs and not necessarily impart decision useful information to a user. To know that a payroll accrual went up from period to period because of the payroll cutoff dates falling different than the calendar dates does not appear to be decision useful information. If anything displaying such facts would lessen the usefulness of information as it would put the burden on the user to sift through a larger quantity of facts to get to those that are truly meaningful.

24. Should the Boards address further disaggregation of **changes in fair value** in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

No, further disaggregation of changes in fair value such as the current period interest accrual, other interest rate changes, credit risk changes, foreign currency changes and other changes would be costly and difficult to obtain for companies with portfolio of any size. Currently, management does not bifurcate fair value for financial instruments into various components and to do so would result in presentation of a significant amount of data.

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?

> See our comments and suggestions for alternative disclosures in 23. above. We would not favor any type of additional reconciliation of any other statements (i.e., reconciliation of the statement of comprehensive income to the statement of financial position).

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?

> As we are not in favor of the direct method of cash flows or the reconciliation of the direct cash flows to the statement of comprehensive income, due in part to our question about the usefulness of that information to investors, we would also question the usefulness of an additional column in the reconciliation schedule.
>
> However, we do believe providing the capability to separately present the impacts of unusual or infrequent events or transactions in the statement of comprehensive income could provide added transparency. Our interaction with analysts indicates that the ability to derive "core" operating income data is important to them. As defined, the operating section would likely collect all items not specifically defined as investing or financing. This would likely include a large portion of unusual or infrequent items. In order to provide optimal transparency, companies should retain the ability to separately report these types of items within the operating earnings section. In fact, limiting separate presentation to the current definition of unusual or infrequent events may be too restrictive to be of the greatest use to investors.

Question Specific to the FASB

27. As noted in paragraph 1.18(c), the FASB has not yet considered the **application of the proposed presentation model to nonpublic entities.** What issues should the

FASB consider about the application of the proposed presentation model to nonpublic entities? If you are a user of financial statements for a nonpublic entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

N/A