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LETTER OF COMMENT NO. 191

File Reference: 1630-100 Discussion Paper:
Preliminary Views on Financial Statement Presentation

Dear Technical Director,

We appreciate the opportunity to comment on the discussion paper (DP) published by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (the Boards) on their "Preliminary Views on Financial Statement Presentation" and are pleased to see the efforts being made by the Boards to improve financial statement presentation.

Overview

Fitch Ratings (Fitch) is a leading global rating agency committed to providing the world's credit markets with independent, timely and prospective credit opinions. Fitch's corporate finance ratings make use of both qualitative and quantitative analyses to assess the business and financial risks of fixed-income issuers. Fitch uses a variety of financial data and other quantitative and qualitative information in its credit analysis of individual issuers. Among these, our analysts rely on the data provided in financial statements as well as the related notes to the financial statements and in periodic reports.

Fitch is generally supportive of the efforts being made by the Boards to enhance the quality of information provided in financial statements. Although we think the DP includes many good proposals that should enhance our analysis, we are not convinced that the arguments put forth in the DP warrant the substantial changes to the presentation of financial statements as proposed. There will be costs of converting from current to proposed presentation for analysts and investors as well as preparers, and we cannot say at this stage whether these will be balanced by benefits the proposals may bring.

However attractive a "one size fits all" approach to financial statement presentation may be in theory, we cannot see this working well in practice. The proposed model seems better suited in general to non-financial companies and ill suited to financial service entities. In addition, we believe that a balance sheet reconciliation schedule will provide more useful information for financial institutions.

We highlight five broad themes that underpin our observations and concerns below.

Management Approach to Classification

The DP proposes that “an entity should classify its assets and liabilities in the business section and in the financing section in a manner that best reflects the way the asset or liability is used within the entity.” Fitch believes that this approach, referred to as the management approach in the DP, leaves the door open to unfettered flexibility in classifying assets and liabilities amongst the relevant sections and could distort key earnings numbers.

Our analysis relies on the ability to compare financial results between the companies in an industry and among companies in various industries across geographical boundaries and over multiple periods. Comparability in this context is desirable and Fitch would prefer an approach that promotes more comparability and not less – especially for companies within the same industry. Note also that for a financial service entity the classification of assets and liabilities among operating, investing and financing may be arbitrary and the distinction would often not present useful information.

We recognize that there is decision useful information in how management assesses a company’s cash flows and deploys its assets and liabilities, which we think is helpful to present in management commentary or in the notes to the financial statements. We also recognize the complexities and costs that arise for users as well as preparers when accounting standards and their implementation become overly prescriptive. A balance has to be struck in preserving comparability while maintaining the need to have transactions and cash flows presented in a way that management thinks best explains them to users.

We would like to see the Boards exploring areas where they can be more prescriptive about where items should be presented in the financial statements. This may be something that is better dealt with in the standards dealing with the items in question, but guidance on where items would generally be expected to appear would aid the comparability objectives of users and in most cases add clarity for preparers. For example, current presentation around pensions and leases varies from company to company for reasons that are generally not clear. Investors and preparers have different ideas about whether these constitute financing or operating even within the same business. If all companies present these in the same place in the financial statements, preparers have the flexibility in management commentary to suggest an alternative perspective, while analysts and investors can adjust consistently if they do not consider the accounting treatment appropriate for their purposes.

Should the Boards decide to pursue the management approach, we would encourage more emphasis on disclosure supporting accounting policy decisions around classifications than presented in the DP. We are concerned that this may result in too much standardization (or “boilerplate” disclosure) to be helpful.

Cohesiveness

The DP highlights that a cohesive set of financial statements requires entities to “align the line items, their descriptions, and the order of presentation in the statements of financial position, comprehensive income, and cash flows.” Fitch supports cohesiveness as an objective and thinks that a principle of cohesiveness should serve to address some of the

inconsistencies present in reconciling key balance sheet, income statement and cash flow items and making flows from period to period more understandable. However, as the examples in the paper illustrate, applying this principle too rigidly in practice by hard-wiring cohesive application line-by-line through all financial statements would result in cumbersome, unhelpful reporting.

Disaggregation

The DP requires that “an entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing, and uncertainty of its future cash flows.” Fitch supports this principle but points out that too much disaggregation in the financial statements would obscure the picture for users.

In Fitch’s view the presentation outlined in the DP would result in an unnecessarily high level of disaggregation stemming from each of the following:

- The more flexibility management is given in presenting its financial statements, the more vertical disaggregation will be demanded by analysts and investors in order to derive comparable data.
- Strict interpretation of the cohesiveness objective, particularly at a line item level, would also likely lead to extreme disaggregation which would not be useful.

For example, breaking out one single balance sheet item e.g. cash into operating, investing and financing for the sole purpose of achieving the cohesiveness objective is less meaningful as most analysts will simply just collapse cash into one number. Forcing disaggregation by function first and then nature will also result in the creation of cash flow information that may often not be used.

For a financial institution, it is most important to match assets on the balance sheet with the liabilities that are funding them, so the appropriate approach to disaggregation will be different to that for a corporate, which will be driven primarily by operating cash flows stemming from production and sales of goods rather than acquisition and disposals of assets.

Disaggregating key line items in the notes would be an effective way of providing more information without clogging the basic financial statements. However, there is widespread opinion (particularly in the US) that the level of audit rigor in the notes is not as robust as that applied to the face of the financial statements. Also, particularly outside the US, there is the issue of less note disclosure in interim reporting.

Disaggregation is also relevant to the debate on whether the cash flow statement should best be prepared using the direct method or the indirect method. While ideally a direct cash flow statement should give the best indication of real cash flows, Fitch is aware that this may be costly to produce for many preparers, as transactions are not generally booked starting from a cash-in/cash-out perspective. A cash flow statement prepared under the indirect method starting from operating profit, as is common practice among UK reporters, could provide us with good information on cash flows, as long as there is granular disaggregation of reconciling items and large numbers do not appear in the “other” or “miscellaneous” line.

Reconciliation Schedule

The DP 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 the following components: cash received or paid other than in transactions with owners, accruals (including contractual accruals and systematic allocations such as depreciation) other than remeasurements, remeasurements that are recurring fair value changes or recurring valuation adjustments and remeasurements that are not recurring fair value changes or valuation adjustments.”

Fitch believes that the idea of having a reconciliation schedule is a good one and it should be pursued. The columnar disaggregation embedded in the reconciliation schedule provides analysts better information when analyzing the nature, timing and uncertainty of future cash flows. The proposed format (the cash flow to comprehensive income) seems mainly geared to non-financial firms. We think a balance sheet-to-balance sheet reconciliation schedule for financial institutions will provide a better approach to capturing all the necessary information that analysts sometimes struggle to extract from financial statements today.

Indeed also for non-financial companies, the notes to the accounts would benefit analysts and investors more if they contained full balance sheet-to balance sheet reconciliations of movements in the main components of both working capital and debt, which would in many cases constitute most items on the balance sheet.

Liquidity and Flexibility

The DP proposes that “an entity should present information in its financial statements in a manner that helps users to assess the entity’s ability to meet its financial commitments as they become due and to invest in business opportunities.” Specifically the proposal requires that an entity present information about the maturities of its short-term and long-term contractual assets and liabilities in the notes to financial statements.

As credit analysts, an important part of our analysis is judging the ability of debt issuers to repay their contractual obligations as they fall due. Good liquidity disclosure enhances our ability to do that

Below we have copied the questions related to each section of the Discussion Paper and our corresponding commentary and response.

We hope you find our comments helpful and would be happy to answer any questions you may have on them.

Yours sincerely,

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Chapter 2: Objectives and Principles of Financial Statement Presentation

Question 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.

Fitch believes that the three objectives proposed (cohesiveness, disaggregation and liquidity & financial flexibility) should improve the usefulness of financial statement to users. However, we believe many specific details of the broad objectives need to be reevaluated. Please see the introductory letter for our comments on each of the objectives proposed.

Question 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?

Fitch believes that the separation of information on the way an entity creates value (its business activities) from the way it finances those business activities (its financing activities) would provide information that is more decision useful relative to the information we get today for many non-financial companies. The classification would make less sense for many financial institutions, where the distinction between financing and business is generally less clear cut.

Question 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?

Showing equity separately from financing is important, although this need not be a separate section. We note that the Boards are still deliberating the split between debt and equity instruments, and Fitch and other users of financial reporting have their own perspectives of where the line between the two should be drawn.

Question 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?

Fitch believes that discontinued operations should continue to be presented separately from the continuing operations of a firm; a separate presentation will provide decision useful information. Discontinued operations are usually excluded when assessing future

cash flows, although sufficient information needs to be available to assess how management has performed. Having all information on discontinued operations presented separately will be in line with the way most analysts evaluate these. Additional information on income, expense, assets and liabilities pertaining to the discontinued segment should be presented in the notes to the accounts as a separate business segment or by mirroring disclosure for business combinations.

Question 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?

As we noted in the main body of our letter, Fitch believes that the management approach to classification leaves the door open to unfettered flexibility in classifying assets and liabilities amongst the relevant sections and could distort comparability of key analytical metrics. Furthermore, the question suggests that businesses are managed according to classification of assets and liabilities, while we consider them to be primarily transaction driven.

We recognize that there is decision useful information in how management assesses a company's cash flows and deploys its assets and liabilities, which we think is helpful to present in management commentary or in the notes to the financial statements. We also recognize the complexities and costs that arise for users as well as preparers when accounting standards and their implementation become overly prescriptive. A balance has to be struck in preserving comparability while maintaining the need to have transactions and cash flows presented in a way that management thinks best explains them to users.

Fitch does not support the broad brush management approach as presented in the DP and we think that a lot more guidance is needed in making the approach "tighter" such that comparability is not jettisoned.

Question 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?

Total assets or net current assets are not common metrics in Fitch's analysis of non-financial companies, and as discussed in our letter above, we do not consider the proposed presentation appropriate for financial institutions. Therefore, the change in format would not make very much difference to the ease with which we compute our

ratios. We make multiple adjustments to data presented, and as long as the necessary information is sufficiently disaggregated and presented clearly, our ability to perform our ratio analysis should not be inhibited.

Question 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.

We believe that the classification of assets and liabilities, for entities with more than one reportable segment, should be done at the reportable segment level for segmental reporting purposes. However, we would prefer to see the primary financial statements reported from a holistic perspective of the reporting entity/group. Disclosure should then be good enough to enable users to understand what adjustments have been made between segmental and primary reporting to achieve this.

Question 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.

Once the final format for financial statement presentation is determined, the key sub-headings of the income statement and balance sheet should be mirrored in segmental reporting. We do not think it would be realistic to expect preparers to provide full disclosure about cash flows at segmental level, although it would be helpful to have disclosure that enabled us to assess which segments most of the group's cash inflows and outflows were coming from.

In terms of financing, it is vital for credit analysts and investors to be able to understand where the main financial obligations are housed, but this is important to know in terms of legal entity rather than business segment.

Question 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?

Fitch agrees broadly with the definitions for the business section (should include assets and liabilities that management views as part of its continuing business activities and changes in those assets and liabilities), although as mentioned above the starting point of assets and liabilities rather than transaction flow may not be helpful, and “recurring” may be a more appropriate word than “continuing”. Furthermore, we think there seems to be

two descriptions of the investing section, and we think that either more clarification is needed here or the Boards should consider whether this category is required or could be optional.

Question 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?

We believe that the financing section (“*financial assets* and *financial liabilities* that management views as part of the financing of the entity’s business and other activities”) is appropriately defined and we support the restriction to narrow financing to primarily financial assets and liabilities, although we would support including leases and pensions in this category if it were to be done across the board rather than at management’s discretion. We think this adds objectivity to the classification scheme.

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

Question 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 expect financial services entities (insurance companies, banks, finance companies, broker-dealers etc) not to present a classified statement of financial position primarily because liquidity information is more important than the long-term/ short-term classification of assets and liabilities.

Fitch believes that there should be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity. As we have stated earlier, comparability needs to be preserved in the proposed model. It will be less comparable to have some companies in the same industry use the classified statement, while others present in order of liquidity. If the majority of a company’s assets are financial assets, it will usually make sense to present in order of liquidity.

Question 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?

Fitch agrees that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Recent events pertaining to auction rate securities (where sudden changes in the credit markets and the credit quality of the issuer adversely impacted the value of the securities) in the U.S. underscore the need to do this. The current definition of cash (highly liquid investments that are readily convertible to cash within three months or less) seems arbitrary and can sometimes be misleading when analyzing the liquidity risk of an issuer.

We appreciate that many companies manage their liquidity by holding cash-like investments rather than cash and suggest that additional note disclosure on financial assets or commentary on liquidity management are the best ways to communicate this. Cash equivalents could also be shown as a separate line item on the balance sheet.

Question 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?

Fitch believes that presenting assets and liabilities that are measured on different bases on separate lines in the statement of financial position could clutter the presentation but would be helpful when mixed measurement within the same asset class is significant. It is certainly important that assets and liabilities are categorized by measurement bases in the notes to the financial statements, preferably in tabular format, reconciling to the statement of financial position, and in interim reporting as well as annual.

Question 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?

Fitch believes that items of other comprehensive income (OCI) should be presented in a separate section that is displayed with prominence equal to that of the other sections. Recent changes to accounting standards by the FASB warrant analysts to pay a lot more attention to the items being reported in OCI. This change will enable analysts to look to only one statement for information on all non-owner changes in an entity's net assets.

Question 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?

This question is part of the wider debate on recycling and is best addressed when that is discussed. It is useful to have management's view on whether these items are considered to be operating, investing or financing, but as long as they are clearly presented and well described in the notes, we will make adjustments we determine to be appropriate.

We were surprised to see that recycling was not considered at DP stage. Although this will be a difficult issue to resolve, some information on the Boards' current thoughts on the topic might have been interesting, and it would have been a good opportunity for the Boards to gain insight into views on this in the markets generally.

Question 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?

Fitch believes that disaggregating within each section and category in the statement of comprehensive income by their function, by their nature, or both would enhance the usefulness of information in predicting the entity's future cash flows. However, forcing disaggregation by function first and then nature may also result in the creation of information that may often not be used. The right balance needs to be struck and will depend on the business being presented.

Question 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.

Fitch agrees that extending tax allocation to the relevant sections (operating, investing and financing) may turn out to be somewhat arbitrary and may not always be useful. However, because users need to allocate tax in order to predict future sustainable cash flows, preparers should provide useful information on tax allocation where they are able to do so. Preparers' information on this is inevitably better than the users'.

Question 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 re-measurement 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?

While we agree broadly with the proposal and we think it may provide decision useful information, we are mindful of the need to avoid clogging the financial statements with subtotals and unnecessary disaggregation. Therefore, we think this is a good disclosure to have in the footnotes.

Question 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?

Fitch believes that the principle of disaggregation is part of the debate on whether the proposed model should embed a cash flow statement that is prepared using the direct method or the indirect method. Today, most cash flow statements are prepared using the indirect method and oftentimes the aggregation of the other/miscellaneous line item obscures useful cash flow information. We think that users will obtain good information from an indirect cash flow statement that starts from operating profit rather than net income, has an appropriate level of disaggregation, and is reconciled to the movement in net debt.

Question 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?

No response.

Question 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?

We believe it would make more sense for the effects of basket transactions (“effects of a single acquisition or disposal transaction that recognizes or derecognizes assets and liabilities that are classified in more than one section or category”) to be aggregated on one line. We think the allocation of these transactions may be arbitrary. In addition, we believe the breakout will likely lead to excess disaggregation on the face of the financial statements.

Chapter 4: Notes to Financial Statements

Question 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?

Fitch believes that all entities should disclose information about the contractual and expected maturities of assets and liabilities in the notes to financial statements, with particular emphasis on liabilities falling due within one year from the reporting date.

As credit analysts, an important part of our analysis is judging the ability of fixed income issuers to repay their contractual obligations as they fall due. This disclosure enhances our ability to do that. We think the disclosure should be expanded to all entities (and should include both short term and long term).

Question 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.

Fitch believes that the idea of having a reconciliation schedule is a good one and it should be pursued. The columnar disaggregation embedded in the reconciliation schedule provides analysts better information when analyzing the nature, timing and uncertainty of future cash flows. However, we think a balance sheet-to-balance sheet reconciliation schedule, for all companies, will be a better approach to capturing information that analysts sometimes struggle to extract from financial statements today.

Question 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?

Fitch believes the Boards should address further disaggregation of changes in fair value in a future project. Given the increasing number of assets and liabilities measured at fair value (particularly level 3) and the uncertainty that surround level 3 measurements, we think consideration should be given to further segregating fair value changes based on estimated cash flows and fair value changes based on other factors, e.g. discount rates or market liquidity.

Question 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 think a balance sheet–to–balance sheet reconciliation schedule, for all companies, will provide a better approach to capturing information that analysts sometimes struggle to extract from current financial statements.

The proposed format (the cash flow to comprehensive income) seems mainly geared to non-financial firms. For financial institutions, the proposed format might be useful for some items, such as interest revenue and expense, but will otherwise be of little use because the transaction flows and analysis of asset quality, capital adequacy and liquidity are primarily more balance-sheet focused. Furthermore, many analysts have always found it difficult reconciling working capital items and net debt, and the proposed format will not help to resolve that difficulty.

Fitch acknowledges the additional complexity that may arise if the proposed schedule is expanded to a balance sheet reconciliation schedule, but we think the complexity can be tempered if the reconciliation schedule focuses on significant balance sheet items.

Question 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?

Fitch believes that companies should have the option of adding a memo column to the reconciliation schedule drawing attention to unusual or infrequent events or transactions. These may provide decision useful information to analysts, but are generally treated with some skepticism as companies tend to emphasize negative items as unusual more often than positive ones. We prefer a quantitative approach to presenting information on unusual and infrequent items supported by a narrative if necessary.