



LETTER OF COMMENT NO. 49



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To: FASB  
Technical Director  
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From: Aaron M. Cunningham  
Master of Science in Accountancy- student  
Loyola University Chicago  
acunningham3@luc.edu

Re: Preliminary Views on Financial Statement Presentation

I appreciate the opportunity to comment on your proposed changes to the presentation of financial statements. The purpose of my letter is to comment on question 12 concerning the presentation of "cash and cash equivalents". This comment letter takes issue with the view that all cash equivalents are significantly different from currency in terms of their liquidity, interest rate risk, and credit risk.

I propose segregating cash equivalents into two categories: currency equivalents and short-term treasury management investments. I further propose that the financial statements report the following two categories: 1) currency and currency equivalents and 2) short-term treasury management investments. I then illustrate how my proposed classifications would provide a better picture of liquidity.

Currency equivalents, as proposed here, would be defined as financial instruments that can in almost all circumstances be converted into currency within 24 hours, possess zero interest rate risk, and are virtually free of credit risk. The items that would constitute the currency and currency equivalents category include: currency, demand deposits, all other short term bank deposits, and money market mutual funds. All of the currency equivalent financial instruments can in almost all circumstances be converted into currency in 24 hours or less, contain zero interest rate risk, and almost zero credit risk. Any short-term financial instruments that do not meet these stringent requirements would fall into the category of short-term treasury management investments.

I believe it is important to look at interest rate and credit risk to determine which financial instruments are truly equivalent to cash. The recent financial turmoil has shown that even extremely high quality and short duration financial instruments can undergo material changes in price. In the wake of Lehman Brothers Inc.'s collapse, corporate commercial paper markets froze with investors demanding large premiums of up to several hundred basis points. Recently, liquidity risk was also highlighted by the debacle in auction rate securities, which were once considered safe and highly liquid investments.

In stark contrast to commercial paper and other more novel/hybrid types of short-term financial instruments there was a wave of government intervention and

corporate support of bank deposits and money market mutual funds. Governments worldwide provided almost limitless support to large and small banks preserving the liquidity and value of bank deposits. The government of Ireland in September 2008, went as far as to guarantee all bank deposits in the country. Money market mutual funds in the United States also received wide support from the federal government in addition to the money managers offering the products. The fact that only 2 material money market mutual funds have “broken the buck” underscores their high quality and liquidity even in the most dire of times. Because of bank deposits’ and money market mutual funds’ historic performance, including the recent financial turmoil, I believe they provide the highest level of liquidity and credit quality leading to their classification as currency equivalents.

The proposed distinction between currency equivalents and short-term treasury management investments creates a clearer, more meaningful view of the financial statements. For example, at March 31, 2007, Vodafone Group PLC’s cash (currency) comprised .8% of total assets. The amount of cash under FASB’s proposed presentation might seem small and worrisome to most investors and creditors. This result was caused by a substantial portion (73.9%) of Vodafone’s cash and cash equivalents being invested in “money market funds”.

In contrast, using my proposed classification, currency and currency equivalents comprised 5.8% of total assets, a significant and more informed view of the company’s truly liquid assets. Additionally, cash equivalents under the old terminology would drop to only 1% under the new proposed classification short-term treasury management investments. Under FASB’s proposed standard, the liquidity situation of Vodafone in March of 2007 would look materially different requiring further time consuming analysis. Using my proposed currency and currency equivalents category paints a materially different picture of liquidity, recognizing that a supermajority of cash and cash equivalents are of the highest liquidity and are not subject to credit or interest rate risk.

In summary, I believe it is vitally important to separate instruments that are truly cash (currency) equivalents from very short-term investments. Treating all cash equivalents the same and segregating them into a separate category from cash (currency) distorts the true level of liquidity of an entity. Instead, I am proposing the classification should be based on the ability of almost immediate convertibility into currency, level of interest rate risk, and level of credit risk. In exhibit 1, which follows, I have illustrated how my proposed definitions would better describe the liquidity and financial position of several large corporations.

Best regards,

Aaron M. Cunningham

Exhibit 1

<b>Microsoft-breakdown of cash and cash equivalents (June 30, 2008)</b>		
	Amount	% of Total
Cash	\$3,274	31.7%
Mutual funds	\$835	8.1%
Commercial paper	\$787	7.6%
Certificates of deposit	\$1,373	13.3%
U.S. government and agency securities	\$1,839	17.8%
Corporate notes and bonds	\$2,122	20.5%
Municipal securities	\$109	1.1%
<b>Cash and Short Term Investments % of Total Assets</b>		
	Amount	% of Total Assets
Total assets	\$72,793	100.0%
Cash	\$3,274	4.5%
Cash equivalents	\$7,065	9.7%
Cash and cash equivalents	\$10,339	14.2%
<b>"Currency equivalents"</b>	\$5,482	<b>7.5%</b>
<b>"Short term treasury management investments"</b>	\$4,857	<b>6.7%</b>
<b>Toyota-breakdown of cash and cash equivalents (March 31, 2008)</b>		
	Amount	% of Total
Cash	¥951,600	58.4%
Time deposits	¥134,700	8.3%
Marketable securities	¥542,200	33.3%
<b>Cash and Short Term Investments % of Total Assets</b>		
	Amount	% of Total Assets
Total assets	¥32,458,320	100.0%
Cash	¥951,600	2.9%
Cash equivalents	¥676,900	2.1%
Cash and cash equivalents	¥1,628,500	5.0%
<b>"Currency equivalents"</b>	¥1,086,300	<b>3.3%</b>
<b>"Short term treasury management investments"</b>	¥542,200	<b>1.7%</b>
<b>Vodafone-breakdown of cash and cash equivalents (March 31, 2007)</b>		
	Amount	% of Total
Cash at bank and in hand	£827	11.1%
Money market funds	£5,525	73.9%
Commercial paper	£1,129	15.1%
<b>Cash and Short Term Investments % of Total Assets</b>		
	Amount	% of Total Assets
Total assets	£109,617	100.0%
Cash	£827	0.8%
Cash equivalents	£6,654	6.1%
Cash and cash equivalents	£7,481	6.8%
<b>"Currency equivalents"</b>	£6,352	<b>5.8%</b>
<b>"Short term treasury management investments"</b>	£1,129	<b>1.0%</b>

Source: Company filings