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Mr. Russell Golden Technical Director Financial Accounting Standards Board P.O. Box 5116 Norwalk, Connecticut 06856-5116

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I would like to begin my written comments with two quotes that will frame my views on the proposed changes to the financial statements presentation.

"Our lives are frittered away by detail; simplify, simplify.

—Henry David Thoreau

"There is a fundamental misunderstanding of simplicity and what it means to be simple today. Many people confuse simple, for example, with simplistic and simplism or that which is dumbed-down to the point of being deceptive or misleading...But this is not the kind of simplicity I am talking about here. The kind of simplicity I am talking about does not come from a place of laziness or ignorance, rather it comes from an intelligent desire for clarity and gets to the essence of an issue, something which is not easy to do. Simplicity is not easy, in fact, it is hard."

—Garr Reynolds, Presentation Zen: Simple Ideas on Presentation Design and Delivery, p. 103.

I am a management trainer and consultant, specifically in the areas of accounting, cost, and business processes. I am also the author of two books in the management accounting field, The Cost Management Toolbox and Designing Strategic Cost Systems. Over the years, I have trained more than 2,000 business professionals that range from production operators to senior executives. My clients include small, privately held companies, nonprofit organizations, and Fortune 500 corporations, which are the bulk of my clientele. In the past ten years, I have observed that companies are requiring their professional employees to have a basic level of financial literacy and I have designed and facilitated training programs that help them use and interpret financial information for decision-making purposes.

After participating in the webcast on Financial Statement Presentation and reading the discussion paper that presents the Preliminary Views, I was surprised by the direction that the FASB has taken on this issue. Instead of making financial statements simpler and more transparent to its users, they have added more layers of complexity, which further muddle the ability to truly understand the financial position of an organization without having an advanced business degree.

The Exposure Draft *Conceptual Framework for Financial Reporting* issued in May 29, 2008 states:

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is *useful* to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers. [OB2, p.1, Emphasis added]

There are many types of capital providers as well as present and potential equity investors, lenders, and other creditors. They range from the supplier of materials and services to the bank that finances equipment and operations. They range from Wall Street and institutional investors to the individual, who owns a 401K or has a small amount of capital invested in the market. It seems that your changes respond to a limited group of large investors, who have specialized personnel that can read and digest the complexity of how the proposed information will be presented. The changes do not make financial reporting more transparent and in fact, open the door for subjectivity and interpretation.

One of the enhancing characteristics of financial information according to the Exposure Draft (ED) *Conceptual Framework for Financial Reporting* is understandability. This characteristic is defined as:

Understandability is the quality of information that enables users to comprehend its meaning. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. (QC23, p. 21)

Though the ED emphasizes the need for users to have a reasonable knowledge of business and economic activities, the matter becomes a question of the depth of knowledge required. I have trained professionals with degrees in Business and even Accounting that have difficulty understanding and interpreting financial statements for decision-making purposes because of the complexity of their presentation and the volume of information that these statements contain. What constitutes reasonable knowledge? Is it a Bachelor's degree in Accounting, Master's in Business Administration (MBA) or a first year college-level course in Financial Accounting? The problem is that the FASB has not set an appropriate benchmark of understandability and has tailored financial reporting to Wall Street at the expense of other, less sophisticated users. Financial statements are shrouded in a cloud of smoke, which has lead to the financial debacles at the start of this century and more recently, the near collapse of the US financial system.

Below is a summary of my views on the proposed changes. I will later answer some of the questions posed in the Preliminary Views section by section.

1. I particularly object to the classification of the balance sheet and the income statement by categories because it makes the financial statements less transparent. I see no value-added in cluttering the balance sheet and the income statement with detail that a sophisticated user could calculate on their own, using the information presented in the statements and the notes. For the average user, it will only make financial information murkier.

- 2. I agree that the Income Statement should include comprehensive income and there should only be one statement: the Statement of Comprehensive Income. We need to educate our users as to what the concept of comprehensive income represents, because at present, it is an elusive concept for all but the most sophisticated user.
- 3. The Statement of Comprehensive Income should not be broken down by category (See Point #1 above). It should, however, present more detail, particularly a breakdown of major expenses by function and nature. Guidelines should be established so that major expenses are reported in a visible manner according to the characteristics of the industry.
- 4. The Statement of Cash Flows should be reported using the direct method, because the indirect method is confusing and less transparent for the users. While I teach users how to read the Statement of Cash Flows, it is not intuitive, particularly the section on operating activities.
- 5. The reason many companies use the indirect method is that financial systems have been programmed to automatically produce the Statement of Cash Flows using the indirect method. I have not personally worked with any financial information system that produces the Statement of Cash Flows using the direct method. It has to be specifically programmed to produce this report. The FASB could work with the major software vendors such as SAP, Oracle, JD Edwards, Peachtree, MAS500 and MAS200, among others to program this change. It would be a one-time cost that would be installed as part of a system upgrade. I do not see this as a major obstacle.
- 6. The new reconciliation schedule is an excellent idea, though it should be placed in the notes and not part of the core financial statements.

Discussion Question (p. 11) Objectives of Financial Statement Presentation

The objectives of financial statement presentation should be aligned with the objectives of financial reporting and the qualitative characteristics of decision-useful financial reporting as stated in the May 2008 ED. While I agree that cohesiveness is important, the goal should be to achieve cohesiveness without compromising simplicity or transparency. There also needs to be an objective of understandability. You should not need an MBA to read and understand a financial statement! Any subsequent document published by the FASB on financial statement presentation should address how these changes are aligned with the conceptual framework that is currently under discussion.

Discussion Question (p. 14) Separation of Business Activities

Simplify, simplify. I do not believe that the income statement and balance sheet should be segregated by activity.

Discussion Question (p. 19) Management Approach

The management approach is too open-ended and introduces too much subjectivity into the classification process that could confuse the user. Two companies in the same industry could classify the same type of asset or liability under different categories or in a different order depending on whether they chose to present in order of liquidity or maturity. There could be a lack of consistency and comparability across companies that makes it more difficult for capital

providers to decide how to allocate economic resources.

Discussion Question (p. 30) Classified Statement of Financial Position

The classified statement of financial position adds complexity, but does not enhance the quality of financial information. This type of statement would pose an added cost of data collection and reporting to small companies, whether publicly or privately held, and small businesses. These entities should be excluded from this requirement. Nonprofits should also be excluded as stated in this preliminary view.

Discussion Question (p. 32) Cash equivalents

The current definition of cash equivalents is clear. I see no value-added in separating cash equivalents from cash.

Discussion Question (p. 32) Assets and liabilities that are measured on different bases

While I agree that the disaggregation of assets and liabilities that are measured on different bases would be useful, I would disclose this information in the notes, not on the face of the financial statement.

Discussion Question (p. 36) Single statement of comprehensive income

I agree that there should be one statement of comprehensive income as discussed in this section.

Discussion Question (p. 37) Other comprehensive income

I do not agree with presenting information by category on the Statement of Comprehensive Income.

Discussion Question (p. 40) Disaggregate by function, nature, or both

I do not agree with presenting information by category, but support disaggregating information on the statement of comprehensive income by function and nature. In my experience, this disaggregation would provide users with more information on the cost and revenue structure of a corporation.

Discussion Question (p. 48) Direct method of presenting cash flows

See summary points #5 and #6. It is an excellent idea!

Discussion Question (p. 65) Reconciliation schedule

The proposed reconciliation schedule definitely adds value to users' understanding of the amounts, timing, and uncertainty of an entity's future cash flows. The cost of implementing this schedule involves a one-time setup cost and the cost of preparing and reviewing this schedule on

a regular basis. My opinion is that the benefits far outweigh the cost. Companies often use remeasurements, accruals, and deferrals to influence the reported earnings. This schedule would highlight these items to the user and therefore, provide the user with better information to evaluate the quality of earnings.

Discussion Question (p. 67) Unusual or infrequent events

The addition of a memo column adds more complexity to a schedule that already has too many numbers. While the information on unusual or infrequent events is very important to users in their capacity as capital providers, this information should be placed in the All Other column with reference to a note that explains the nature of the unusual transaction and its impact on the financial position of the corporation. The definitions contained in APB No. 30 are appropriate to define these types of transactions and should not be changed. An entity should not have the option of only presenting the information in narrative form, as this method is less transparent.

I highly encourage all FASB personnel to read the book Presentation Zen, which is quoted at the start of these comments. The principles outlined in this book can be easily applied to the presentation of financial statements.

I look forward to reading the Exposure Draft. You face a difficult task ahead. However, I hope that you will consider simplicity and transparency as your guiding beacon so that all capital providers, not just Wall Street wizards, can read and understand financial statements. If you have any questions or would like further clarification on these comments, I can be reached at 787-994-4915.

Sincerely,

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Lianabel Oliver, MBA, CPA, CMA

President