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Mr. Russell G. Golden FASB Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 186

File Reference No. 1630-100

Dear Mr. Golden:

We are pleased to comment on the Discussion Paper on the Preliminary Views on Financial Statement Presentation (the "Discussion Paper"). We support the goal of the project as stated in paragraph 1.6 of the Discussion Paper—"to improve the usefulness of the information provided in an entity's financial statements to help users make decisions in their capacity as capital providers."

We believe the goal is valid, and also believe the proposed model would accomplish that goal. However, we also believe that, in attempting to reach the goal, the proposed model goes too far in some areas. We list below general comments for your consideration, and then address some of the specific questions posed in the Discussion Paper.

General Comments

Our comments are arranged into the following categories:

- Scope of the Discussion Paper
- The cohesiveness objective
- Extent of disaggregation
- The management approach
- · Statement of cash flows and the related reconciliation schedule

Scope: Applicability to nonpublic entities (Comments relate to Question 27 in the "Questions for Respondents")

We are concerned by a number of items with respect to the proposed model. One of our most significant concerns relates to the scope of the proposed project. Paragraph 1.18c of the Discussion Paper notes that the proposals would not apply to nonpublic entities.

We would not support an approach that would result in public entities and nonpublic entities reporting under radically different financial reporting models. We believe that financial reporting as a whole would benefit if nonpublic entities were subject to similar requirements related to the objectives of financial statements and the overall organization as are public entities. However, we also believe a reduced or scaled down version would be preferable.

We believe much of the information required under the proposed model would be of little benefit to users of the financial statements of nonpublic entities. This may be because, in many instances, a user of financial statements of a nonpublic entity may have access to information (or to management of the entity) that exceeds any corresponding access that a user of the financial statements of a public company might have to similar information for the public company. We recommend that the FASB seek additional input from users of financial statements of nonpublic companies to determine what type of information they believe would be most meaningful.

We also recommend that the FASB seek nonpublic entities willing to participate in field testing of any proposal that would be applicable to nonpublic entities.

Cohesiveness objective

(Comments relate to Questions 1, 2 and 6 in the "Questions for Respondents")

The cohesiveness objective would require entities to present information in a way that clearly associates related information across the financial statements. Accordingly, specified categories would be required in each of the financial statements.

We support the notion of a cohesive financial picture and agree with requiring entities to present financial information in a consistent manner in the financial statements. However, we believe sufficient "cohesion" can be achieved without extending the required presentation to the statement of financial position. We believe entities would be required to incur substantial cost to comply with the requirement to disaggregate assets and liabilities into the proposed categories, and further believe it is likely that entities would eventually be required to make subjective judgments to categorize assets and liabilities, as entities do not ordinarily classify their assets and liabilities in such a manner. Accordingly, we believe the requirement may be inconsistent with the management objective, and may result in reduced usefulness of the statement of financial position.

In summary, we support the model to the extent that it improves cohesion between the statement of cash flows and the statement of operations. However, we recommend that the model not extend this objective to the statement of financial position.

Extent of disaggregation

(Comments relate to Questions 13 and 16 in the "Questions for Respondents")

The Discussion Paper lays out three objectives underlying the proposed model: a cohesiveness objective, a disaggregation objective, and liquidity and financial flexibility objective. To achieve these objectives, the Discussion Paper would require that information be disaggregated into sections and categories, and then further disaggregated by function and nature.

We believe the proposal calls for too much disaggregation. We believe the requirement to disaggregate income and expense items by nature may be inconsistent with the management approach, as we do not believe senior management generally reviews such information. We also believe that requiring this disaggregation to the "nature" level would result in significant costs to entities.

The management approach (Comments relate to Questions 5 and 7 in the "Questions for Respondents")

We believe that use of a management approach would result in subjective and flexible classifications, as management would be permitted too much latitude to classify assets and liabilities, and to change initial classifications. This high level of flexibility would likely lead to inconsistent treatment of similar items among entities within a particular industry. This would negatively impact comparability and usefulness of the financial statements, thereby impeding users' ability to assess those statements. Our experience has been that mid-sized and smaller public companies have struggled to apply the management concept of segment reporting in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*. This is due in part to the fewer layers of management and less formal structures in such entities and in many cases the chief operating decision maker sees a substantial amount of discrete financial information on a regular basis. The expansion of the management approach of Statement 131 across the financial statements will create significant adoption and ongoing challenges to apply the financial statement presentation model. The challenges will be even more significant for nonpublic entities that have not applied Statement 131. We also believe that the high level of flexibility may make it more difficult for independent auditors to assess management's categorizations.

We recommend the proposal be amended to provide guidelines on the specific classifications needed in the model so as to promote consistency in the reporting of similar items and transactions.

Cash Flow Statement and Reconciliation Schedule (Comments relate to Questions 19, 20 and 23 in the "Questions for Respondents")

We do not agree with the proposal to require presentation of the statement of cash flows using the direct method. We understand that the information required to prepare a direct-method statement of cash flows is not necessarily readily available and is not necessarily information used to make business decisions. As such, it appears that requiring the direct method could, in some instances, be inconsistent with the management approach, as most entities do not use the direct cash flow statement information to manage their business.

We believe that adoption of a direct-method cash flow statement would result in a very costly implementation, in many instances requiring new systems. Many entities currently utilize systems that are not designed to generate the information required by the direct method. We believe elimination of intercompany transactions would be particularly difficult, as would tracking of the effects of exchange rates.

With respect to the proposed reconciliation of cash flows to comprehensive income, we believe the proposed reconciliation will be extremely difficult and costly to prepare and audit. The proposed disaggregation into cash, accrual and remeasurements components will be unduly burdensome on preparers, and auditing that disaggregation will be very difficult. We believe the costs of preparing this schedule will outweigh the benefits to users.

We would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to either Jay D. Hanson (952-921-7785) or Richard K. Stuart (203-905-5027).

Sincerely,

McGladrey & Pullen, LLP

McGladrey of Pullen, LCP

SELECTED SPECIFIC QUESTIONS ASKED IN DISCUSSION PAPER, PRELIMINARY VIEWS ON FINANCIAL STATEMENT PRESENTATION

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

We believe equity can be presented either as a section separate from the financing section, or as a separate part of the financing section. As long as equity and debt elements are presented separately, we would support whichever path is adopted.

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

We agree with the proposal to present discontinued operations as a separate section, so as to enable users to more easily isolate those items and concentrate on the operations and financial position of the ongoing operations of the entity.

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 believe the definitions are appropriate.

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 IFRS and U.S. GAAP as proposed? Why or why not?

We believe the financing section and the financing assets and liabilities within that section are defined appropriately.

- 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?

While we do not feel strongly about the proposed guidance, we note that the requirement to present assets as short-term or long-term based on a time criteria (twelve months) may, in certain circumstances, be inconsistent with the management approach.

We believe that the guidance referred to in Question 11b above is sufficient.

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

We agree with the proposed requirement to classify cash equivalents in a manner similar to other short-term investments.

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 agree that reducing the number of alternatives and requiring a single statement is appropriate.

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?

We agree with the recommendation as we believe it will provide users of financial statements with decisionuseful information.

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?

We support the proposal. We believe that disclosing the information provides beneficial information to users. The Board may wish to consider providing more detailed guidance on the disclosures to be required. Absent specific guidance, it is likely that practice would gravitate towards the parameters set forth in examples. For instance, if the wording of paragraph 4.9 of the Discussion Paper and the Bank Corp example in Illustration 2A in Appendix A were to be retained in a final standard, it is likely that entities would disclose the information on the groupings "suggested" in paragraph 4.9. If the Board indeed wants the groupings to be required, such a requirement should be stated in the final standard.

- 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?

We agree that information in a memo column could be useful to financial statement users. The definitions in APB Opinion No. 30 seem to be too restrictive and could create confusion in practice. If an entity voluntarily chose to disclose more information (either in this column of the reconciliation schedule or in another place) than permitted by these definitions, would they be allowed to do so? Voluntary disclosure of factually accurate information should be encouraged. We would recommend that the Board provide specific guidance on such a "memo column" so as to avoid potential misuse of that column and yet encourage meaningful disclosure.