Technical Director

File Reference No. 2012-200

**FASB** 

September 24, 2012

I agree with the objective of this project and encourage the Board to complete it in a timely and thoughtful manner. However, the Exposure Draft does not do the job. Significant guidance is missing and a final standard should require the reporting entity to evaluate and express an opinion on the adequacy of its liquidity to meet its financial obligations. The reporting entity should also be required to discuss its plan to obtain or to maintain adequate liquidity.

My comments are on the disclosures for non-financial institutions.

#### **Cash Flow Obligations Table**

### **Discounted and Undiscounted Obligations**

Except for Long-Term debt, I would use discounted or undiscounted amounts in the Table consistent with the display of the obligation on the Balance Sheet. For LongTerm debt, I would include both the principal and interest payments. I would also separate the Table between those obligations that are on a discounted and undiscounted basis.

For obligations not reported on the Balance Sheet, I would use undiscounted amounts in a separate section in the Table.

This suggestion is offered as a cost/benefit consideration. Also, I believe the ability to trace the amounts directly to the Balance Sheet for those obligations that are reported will be more understandable.

#### **Derivatives**

The Table should show only derivatives in a liability position. Netting derivatives in an asset position against derivatives in a liability position without the unconditional right to offset and without the intent to settle on a net basis is not consistent with the purpose of the Table. Being silent on how to display derivatives in the Table as is done in the Exposure Draft is a gross omission of needed guidance.

The guidance in 825-10-55A(e) is not consistent with the purpose of the Table. Derivative liabilities should be

reported in the Table based on their contractual payment requirements.

## Commitments, Purchase Obligations and Other Obligations

Guidance is needed to identify what is included under the terms "Commitments" and "Purchase Obligations" and "Other Obligations." I would expect "Commitments" and "Purchase Obligations" to include all "Firm Commitments" as defined in the Codification's Master Glossary. The commitments and purchase obligations should be listed by the nature of the item being acquired such as for P,P&E, inventory or services. Also, guidance with respect to employment agreements and union contracts should be provided.

#### **Contingent Lease Payment Obligations**

The Table should include estimated contingent lease payments in addition to specified lease payments.

### Accounts Payable and Accrued Expenses and Tax Payments

These amounts should be explicitly required to be included in the Table.

#### **Dividend Payments**

Required or cumulative preferred dividend obligations should be included in the Table as an obligation.

Below the total line in the Table, a line for common stock or other dividends based on payments in the past should be displayed.

#### **Available Liquid Funds**

The Table should identify funds as "Existing," "Potential" and "Available Borrowings."

Under "Existing," I would include cash, accounts receivable, and investments and other financial assets carried at fair value on the Balance Sheet. This would include derivatives in an asset position.

Under "Potential," I would include investments and other financial assets that are not carried at fair value on the Balance Sheet if such assets could be readily sold. These "Potential" funds should be displayed on a fair value basis with their carrying value shown parenthetically.

Under "Available Borrowings," I would list existing credit facilities but exclude those that are already covered under "Existing" or "Potential" such as a receivable purchase commitment.

## Obligations and Funds in Consolidated Entities Subject to Repatriation

Although 825-10-50-23U requires a narrative discussion of the effect of regulatory, tax, legal, repatriation, and other conditions that limit the transferability of funds among consolidated entities, it would be more effective to separate the information in the two Tables between those subject to repatriation for which deferred taxes have been recorded and those for which deferred taxes have been not been recorded.

# Opinion on Adequacy of Liquidity and Plans to Obtain or

#### **Maintain Adequate Liquidity**

Reporting entities should be required to express an opinion on the adequacy of their liquidity to meet financial obligations and the basis for the opinion. Plans to obtain or maintain adequate liquidity should be required to be discussed.

Based on the information the FASB obtained in deciding to undertake this project and in their outreach efforts, it is clear that financial statements Users consider liquidity information very useful. Liquidity is necessary for a reporting entity to be a Going Concern. Management of the reporting entity is in the best position to communicate information about the entity's adequacy of liquidity and their plans to obtain and/or to maintain adequate liquidity. Making the Auditor the primary reporter of the lack of adequate liquidity (through the auditors' report with a going concern exception) is not appropriate.

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Please contact me at 203-358-8274, or ewtrott@gmail.com if you would like to discuss these comments.

Sincerely,

Edward W. Trott