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LETTER OF COMMENT NO. 82

April 14, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
File Reference No. 1630-100

Sir David Tweedie
Chairman, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Mr. Golden and Sir David:

The International Business Machines Corporation (the "company") appreciates the opportunity to comment on the joint FASB and IASB (the "Boards") Discussion Paper ("DP"), *Preliminary Views on Financial Statement Presentation*.

The company supports the Boards' fundamental review of financial statement presentation in order to improve the usefulness of the information provided in an entity's financial statements and to provide financial statement users with information to predict the amount, timing and uncertainty of future cash flows. However, the company does not believe the proposed model meets these objectives. Furthermore, the costs of implementing this model, especially the requirements to use the direct cash flow method and the disaggregation of expenses by nature, far outweigh the incremental benefits to financial statement users.

The DP states that the proposed disclosures have been driven by the needs of financial statement users. However, in our case, we have not received requests from our investors for the type of information proposed in this DP. Specifically, the company has not received requests for direct operating cash flow information, expenses by nature or non-cash adjustments to the statement of earnings. Therefore, the company is uncertain as to whether there is a critical need for such information. In fact, the company's experience suggests that users request information specific to future events such as customer signings (a non-cash off-balance sheet operating measure) which are management's initial estimate of the revenue value of a client's contracted commitment made during a reporting period.

Direct cash flow method

The company does not use direct cash flow information internally to manage the business or to make strategic decisions. For segment reporting, both SFAS No. 131 and IFRS 8 require entities to report information externally which is regularly reviewed internally by the entity's chief operating decision maker to allocate resources to a particular segment. The company believes that the same principle should be applied to cash flow information.

The company is aware that limited academic research supports the hypothesis that the direct method of cash flow provides better predictive value to future operating cash flows than either the indirect method or the income statement. These studies claim that cash flow from customers is the most important indicator of future operating cash flow. However, the company notes the following:

- If the information significantly provides incremental value, companies would utilize that information for internal reporting, which as noted above, is not occurring;
- While the information is deemed "valuable" or of "incremental value", there is little evidence to suggest that this additional information would change investor decisions;
- Many of those same academic studies suggest that the direct method of cash flow must be combined with earnings and accrual information in order to provide the best predictive value;
- The company questions whether a proper statistical sample is possible given that currently approximately 3 percent of companies use the direct method (according to one study) and the fact that this use is limited to certain geographies; and
- To state the obvious, future cash flow is largely driven by future transactions. Historical data is of limited predictive value and therefore, the company believes that revenue—combined with days sales outstanding, changes in accrual balances and other company-specific information—provides sufficient information for users to achieve similar decisions.

A stated goal of the DP is to provide users with information about the cash and non-cash activities of an entity. The use of the indirect cash flow method for operating activities actually provides more information about an entity's non-cash operating activities since they must be specifically added to or deducted from net income to calculate operating cash flows. The company is aware that some companies use the direct method, but note that most also provide the indirect method as supplementary information to provide investors with this critical information.

Given the size of the company's worldwide operations, management anticipates that substantial system modifications would be required to implement the direct cash flow model. Therefore, the company strongly encourages the Boards to continue to allow the use of the indirect method.

The new reconciliation schedule

The company does not agree with the requirement that each line item of the (direct) cash flow statement be reconciled to each line of the comprehensive income statement. As noted in the previous section, the company has serious concerns about requiring the use of the direct cash flow method and is similarly concerned about any other financial statement schedule that would be based on that method.

One particular area of complexity that would require systems modification, for example, relates to tracking foreign currency exchange rates on a transactional level at actual rates and reconciling to totals that are measured at monthly average rates.

Specific to the reconciliation, the company does not see the usefulness of the “Accruals, allocations and other” column in paragraph 4.45 of the DP. The calculation of normal business accruals is inherent in the normal accounting cycle to all entities and, therefore, does not provide useful information to financial statement users. Furthermore, significant and material accruals are already disclosed either in total or in a year-to-year reconciliation.

The company believes that extensive and robust disclosures already exist for the columns “Recurring fair value changes / valuation adjustments” and “All other” (non-recurring adjustments). Paragraph 4.45 explains the recurring fair value changes column as follows: “Thus, column D includes the effects of re-measuring assets and liabilities from fair value to fair value (FASB) or from current value to current value (IASB) at the end of each period.” The Level 3 disclosures required by both SFAS No. 157 and IFRS 7 require extensive information about such re-measurements which give financial statement users an understanding of how fair value determinations are made by asset class, realized and unrealized gains and losses for the period and where in the financial statements these adjustments are disclosed. In addition, the recent amendments to IFRS 7 go further to require that a sensitivity analysis be performed on Level 3 valuations to estimate the impact of using other reasonable alternative inputs in fair value models. Since this information is already prepared and disclosed, a separate reconciliation schedule is not needed.

The company proposes that additional disclosures similar to those required for Level 3 valuations could be introduced for levels 1 and 2 for financial assets/liabilities and non-financial assets/liabilities in order to provide financial statement users with more detail regarding material non-cash adjustments to the statement of comprehensive income. In addition, disclosures could be added for material non-cash adjustments which are not subject to the fair value disclosure requirements of SFAS No. 157 or IFRS 7.

Disaggregation

In principle, the company agrees with the proposal that information in the financial statements should be sufficiently disaggregated in order to aid investors in understanding

the amount, timing and uncertainty of future cash flows. However, the company objects to mandating extensive disaggregation on the face of the financial statements. The company believes that the appropriate location for disaggregated information is and should remain the footnotes to the financial statements where investors can obtain additional information on many topics.

Similar to the direct cash flow method, disaggregated expenses by nature are not used extensively by management to make business decisions. Furthermore, the disaggregation of expenses by nature within each function is not practicable to obtain in the company's current IT environment and would require major system modifications. For example, the disaggregation of cost of goods sold into labor, materials, etc. would require major system modifications and significantly complicate a standard costing model. This complication is driven by the need to track costs on an elemental basis throughout the manufacturing process, including cross-border transfers of products, versus a summary standard utilized today.

Financial impact of the DP to IBM

In response to the DP, the company undertook an extensive analysis of the potentially required system changes. In the analysis, the company reviewed each major business process and the systems utilized (e.g. accounts receivable, accounts payable, fulfillment, etc.) in a majority of the 170 countries in which the company operates. The findings suggest that the use of the direct cash flow method, implementation of the new reconciliation statement and the disaggregation of expenses by nature are a major source of the required modifications. The company estimates the system-related development and deployment costs to be in the range of \$75 – 100 million. To be clear, this estimate is mitigated by the fact that the company is able to perform much of this work internally and that the company's transformation to a globally integrated enterprise has reduced disparate systems worldwide. Companies that cannot perform the required work internally or those that do not have a globally integrated infrastructure could incur significantly higher costs relative to their revenues.

Thank you for the opportunity to comment on this proposal. If you have any questions, please do not hesitate to contact me at 914-766-3190 or at gln@us.ibm.com.



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