

800 Nicollet Mall Minneapolis, MN 55402 April 15, 2009



LETTER OF COMMENT NO. 144

Financial Accounting Standards Board Attn: Technical Director – File Reference No 1630-100 401 Merrit 7 P.O. Box 5116 Norwalk, CT 06856-5116

International Accounting Standards Board Attn: Project Manager 30 Cannon Street London United Kingdom

Re: Discussion Paper "Preliminary Views on Financial Statement Presentation"

Dear Technical Director/Project Manager:

U.S. Bancorp, the parent company of the sixth largest commercial bank in the United States, with over \$265 billion in total assets, appreciates the opportunity to comment on the Discussion Paper, "Preliminary Views on Financial Statement Presentation" (the "DP"). U.S. Bancorp supports the DP's stated goal of improving the understandability of financial statements. We have concerns, however, that the changes proposed in the DP do not achieve that goal.

The DP states the following three objectives:

- To portray a cohesive financial picture of an entity's activities
- To disaggregate information so that it is useful in predicting an entity's future cash flows
- To help users assess an entity's liquidity and financial flexibility

To achieve these objectives the DP proposes a wholesale redesign of the financial statement presentation model but does not discuss why the proposed redesign is an optimal solution and does not provide support as to how the proposed changes will improve the understandability of the financial statements. For example, the DP states that existing presentation requirements provide opportunities for "a wide spectrum of presentation formats that comply with the requirements but vary in detail and comparability". To address the concern regarding variation in detail and comparability, the DP proposes all financial statements should be segmented into operating, investing and financing components. The DP further states that financial results should be categorized into these components based on how an entity is managed. We agree that financial statements should be presented based on how an entity is managed as one purpose of financial statements is to present the unique characteristics and performance of an entity. It appears, however, that the DP assumes a recasting of the financial statement presentation model will lead to less variation in detail and comparability. We believe that variations in "detail and comparability" will still exist and do not believe such variation is incongruous to the purpose of financial statements. Rather, we point out that the DP presents no support for why the proposed redesign is an optimal presentation of financial results.

Although the DP emphasizes that financial results be presented based on a management approach, the DP is restrictive regarding some aspects of financial presentation. For example, the requirement that all elements of a balance sheet line item (i.e. cash, pensions) be classified within one segment may contradict with the way management views the item's various elements. Also, the requirement that financial results be presented not only by function by also by nature may conflict with the way that an entity is viewed by management. Again, the DP provides no support for why the implementation of these proposed concepts will produce a more user-friendly set of financial statements.

Another objective stated in the DP is to provide information which is relevant to assessing liquidity. The DP provides that a solution for this issue is to implement a direct cash flow statement. However, we question how relevant a cash flow statement is to assessing future liquidity. The DP lacks discussion of why a direct cash flow statement is an optimal solution in assessing future liquidity. The implementation of a direct cash flow statement would be costly for many preparers as it will likely involve significant system and process redesign. We do not believe the perceived benefits of this change outweigh the costs involved.

We believe the implementation of the changes proposed by the DP will be costly for many entities as it will require a redesign of financial reporting systems and reporting segment allocation processes. Due to the significant amount of cost involved, we believe it is essential that there be sufficient evidence that the proposed changes will produce a more optimal result before such changes are deemed to be final accounting guidance.

Our responses to your specific questions are discussed below:

1. Would the objectives of financial statement presentation described in paragraphs 2.5-2.13 improve the usefulness of the information provided in an entity's financial statements help users make better decisions in their capacity as capital providers?

As discussed above, we agree with the objective of improving the usefulness of financial statement information. We do not believe there is sufficient support that the proposed changes will achieve that objective. Furthermore, we do not believe that the three objectives noted above improve upon the objectives discussed in paragraphs 32 through 54 of Statements of Financial Accounting Concepts 1, Objectives of Financial Reporting by Business Enterprises or IAS 1 (revised) Presentation of Financial Statements.

Specifically, the DP lacks sufficient support for why segmenting financial statements into operating, investing and financing classifications will result in more usefulness of the financial statements and will yield less variation in the presentation of financial results. We also believe that disaggregation of financial results by nature is not an appropriate requirement for financial statement presentation as it implies that additional detail is always beneficial. Furthermore, requiring this level of detail may be inconsistent with the way an entity is managed. We believe that a more appropriate objective would be to require that preparers provide the level of detail necessary to aid users in understanding an entity's financial performance and position.

2. Would the separation of business activities from financing activities provide information that is more decision useful than that provided in the financial statement formats used today (see paragraph 2.19)?

We do not believe the DP presents sufficient support that separating business activities from financing activities is an improvement over the current financial statement presentation model.

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)?

As discussed in our response to question #2 above, we do not support the separation of business activities from financing activities. If the Boards continue to pursue this segregation, we believe this question should be addressed as part of the Board's joint project on financial instruments with characteristics of equity (formerly liabilities and equity).

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?

Users of the financial statements generally segregate discontinued operations from continuing operations when assessing an entity's future expected income potential. To support this type of analysis, we recommend that discontinued operations be presented separately from continuing operations.

- 5. The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its report segment (see paragraphs 2.27, 2.34, and 2.39-2.41).
 - a. Would a management approach provide the most useful view of an entity to users of its financial statements?

We agree that financial results should be presented based on how an entity is managed. This approach provides the most useful information to financial statement users. However, we do not believe requiring financial results to be segmented by function <u>and</u> by nature is consistent with how many entities are managed. The current presentation of reportable operating segments, currently required under US GAAP and IFRS, appears to adequately provide users with a view of how an entity is managed.

We also believe that the management approach presented in the DP would be difficult for many entities to apply because many entities perform operations within a central unit. Under the proposed change, an entity would be required to allocate financial assets and liabilities based on an arbitrary methodology which would not necessarily reflect the way an entity is managed.

b. Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach?

We support a management approach for financial statement presentation and believe that this approach aids in and does not detract from comparability. However, we do not believe the prescriptive approach described by the DP is consistent with a management approach.

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial rations for an entity's business activities or its financing activities?

As previously discussed, the DP lacks support for why a business and financing segmentation is an optimal financial statement presentation. We also believe that many financial statement users are most concerned with the overall performance of the entire entity, not operating or financing segments on a stand alone basis. However, if the Boards were to implement such a change, we believe that the allocation between business and financing segments must be conducted without prescriptive arbitrary allocations as the proposed approach may cause financial analysis to be less reliable.

7. Paragraphs 2.27, 2.76, and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and the related changes) at the reportable segment level as proposed or at the entity level?

As discussed in our response to question #5 above, we don't agree with the proposed requirement to segment assets and liabilities. However, if the Boards implement this change, we point that financial institutions manage their balance sheets differently than other industries (see paragraphs 2.78 -2.79). That is, financial institutions generate revenues through operating segments and their corporate and treasury segments manage the majority of the institutions' assets and liabilities. As such, we believe that any methodology to allocate "corporate" assets and liabilities to operating segments would be arbitrary and not reflective of the way in which the financial institution is managed. Therefore we believe that financial institutions should be permitted to report assets and liabilities at the entity level.

8. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model?

We believe that the current reportable operating segment requirements are appropriate for financial reporting.

9. Are the business section and the operation and investing categories within that section defined appropriately?

We believe that the operating and investing categories are defined appropriately, but as discussed in our response to question #1 above, we do not believe that the distinction between the two categories can be practically and consistently applied to enhance the usefulness of financial statements.

10. Are the financing section and 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 in U.S. GAAP as proposed?

We believe that the financing section and financing assets and liabilities are defined appropriately. However as discussed in our response to question #2 above, we do not believe that the distinction between financing and business categories can be practically and consistently applied to enhance the usefulness of financial statements.

- 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?

We believe that all entities should be exempt from presenting a classified statement of financial position. We believe that a short-term versus long-term criterion, based on a bright line of 1 year, is arbitrary and that the statement of financial position should be presented based upon the entity's liquidity risk management procedures. This presentation could be supplemented with footnote disclosure listing contractual maturities (and expected maturities if significantly different than contractual) of assets and liabilities.

b. Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity?

As discussed in our response above, we support a presentation based upon the entity's management of liquidity risk.

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 we agree?

We believe classifying investments based on a bright line of a maturity date of not more than 3 months from the date of purchase as a cash equivalent with maturities of greater than 3 months as short-term investments is not optimal. Instead we propose that short-term, liquid investments are classified based on how management views those investments. If the investments are highly liquid (i.e. traded in an active market), we believe that they should be classified as a cash equivalent. On the other hand, if the investment is deemed by management not to be highly liquid, it should be classified as a short-term investment.

13. Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities that are measured on different bases?

We believe that users of financial statements would benefit from transparent disclosure of the different measurement bases for assets and liabilities. However we believe that this disclosure could be accomplished through footnote disclosure. Therefore, we do not support the requirement for assets and liabilities measured on different bases to be recorded on separate lines in the statement of financial position.

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)?

We believe that the current practice of reflecting other comprehensive income items within the statement of shareholders equity is the most appropriate method of disclosing these types of items. However if the Boards determine to pursue a statement of comprehensive income, we believe that a separate statement of comprehensive income should be utilized to reconcile net income to total comprehensive income.

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?

We believe that classifying other comprehensive income items within operating, investing, or financing segments could only be done on an arbitrary basis and, therefore, would not enhance the quality of information provided to financial statements users.

16. Paragraphs 3.42-3.48 propose that an entity should further disaggregate with each section and category in the statement of comprehensive income its revenues, expenses, gains, and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information for predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision useful to users in their capacity at capital providers?

As discussed previously, we do not agree with this proposal and do not believe that this approach will provide information that is decision-useful.

17. To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision useful to users?

We believe current accounting guidance adequately addresses disclosure of income taxes. We agree with the Boards' conclusions in paragraph 3.55 of the DP to not require further disaggregation of income taxes.

- 18. Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets that gave rise to the gains or losses.
 - a. Would this provide decision-useful information to users in their capacity as capital providers?

As discussed previously, we do not agree with the segmentation into operating, investing, and financing categories. However, because the driver of foreign currency exposure for many entities is related to operations in a foreign location, we would support the classification of foreign currency gains and losses within operations.

b. What costs should the Boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

To ensure that the Boards understand the costs associated with classifying foreign currency transaction gains or losses in different segments, we recommend that the Boards perform a survey of entities with significant international operations.

- 19. Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows:
 - a. Would a direct method of presenting operating cash flows provide information that is decision useful?

We do not believe that the direct method of presenting operating cash flows provides superior information to the indirect method.

b. Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraph 3.75-3.80) than an indirect method?

We do not agree that the direct method is more consistent with the proposed cohesiveness and disaggregation objectives. As discussed above, we do not agree with the proposed segmentation (as proposed by the cohesiveness and disaggregation objectives) of the statements of comprehensive income and financial position.

c. Would the information currently provided using an indirect method to present operation cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)?

We do not agree with the proposal to create a reconciliation schedule and believe that the cost of implementing such a change outweighs any perceived benefits of such a schedule.

20. What costs should the Boards consider related to using a direct method to present operation cash flows (see paragraph 3-81-3.83)?

We believe there would be significant costs for many entities to redesign systems and processes to implement a direct method for the statement of cash flows.

21. On the basis of the discussion in paragraphs 3.88-3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and statement of cash flows to achieve cohesiveness?

As discussed above, we support a management approach for the classification of financial results and believe that management should have the flexibility to present basket transactions based on how those various elements are managed within an entity.

22. Should an entity that presents assets and liability 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 prepare this information?

As discussed in our response to question #11 above, we support additional disclosure of maturities of contractual assets and liabilities in the notes to the financial statements.

- 23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments and (d) remeasurements that are not recurring fair value changes or valuation adjustments.
 - a. Would the proposed reconciliation schedule increase user's understanding of the amounts, timing, and uncertainty of an entity's future cash flows?

We believe that the changes in fair value as proposed in (b), (c), and (d) above should be addressed within the footnote related to the remeasured asset or liability instead of a cash flow analysis. By including this information in the disclosures related to the underlying asset or liability, a single comprehensive disclosure can be provided for all changes within the respective asset or liability, with minimal duplicative information.

b. Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19?

We do not support a requirement that changes in assets and liabilities be disaggregated into components.

c. Is the guidance provided in paragraphs 4.31, 4.41, and 4.44-4.46 clear and sufficient to prepare the reconciliation schedule?

We do not believe the proposed DP considers all issues that may be encountered by financial statement preparers. Due to the complexity in reconciling different accounts, we believe it would be difficult to provide sufficient guidance to prepare the proposed reconciliation schedule without additional testing of the application of the guidance.

24. Should the Boards address further disaggregation of changes in fair value in a future project?

We believe SFAS 157 and associated FSP provide sufficient guidance to address measurements of fair value.

25. Should the board consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs b.10-B-22?

We believe the statement of financial position reconciliation as described in appendix B to the Discussion Paper would be confusing and difficult for users of the financial statements to understand. Any perceived benefits of providing this schedule are outweighed by the difficulty in understanding the information presented as well as costs of preparation.

26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw user's attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraph 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?

We believe it is important to communicate unusual or infrequent events to financial statement users; however, we also believe that current disclosure requirements adequately address the disclosure of such items. In addition, the detailed disclosure proposed by the DP would obscure the disclosure of unusual or infrequent events.

b. APB Option NO. 30, Reporting of 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?

We believe that the users of financial statements would benefit from the modification of the phrases "...clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity... and "...not reasonably be expected recur in the foreseeable future..." to "... unrelated to the ordinary and typical activities of the nature..." and "...reasonably expected to recur repeatedly in the near future...", respectively.

c. Should an entity have the option of presenting the information in narrative format only?

We support the ability of an entity to present information in narrative format only. We believe within the narrative discussion disclosure should be made of the line items impacted by the unusual and/or infrequent transaction.

27. As noted in paragraph 1.18(c), the FASB has not yet considered the application of the proposed presentation model to non-public entities. What issues should the FASB consider about the application of the proposed presentation model to nonpublic entities?

No comment.

We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. Please contact me at (612) 303-5238 with questions or if you need additional information.

Sincerely,

Craig E. Gifford

Chief Accounting Officer